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RURAL DEVELOPMENT PERSPECTIVES

United States Department of Agriculture Economic Research Service

Vol. 2, Issue 2, February 1986

Crime in the Country

Rural People and Taxes—Results of a Survey

An Innovative Approach to Growth in Kentucky's Jessamine County

Why Some Rural Physicians Flee in Rural Practice

More Inside . . .

Dear Reader,

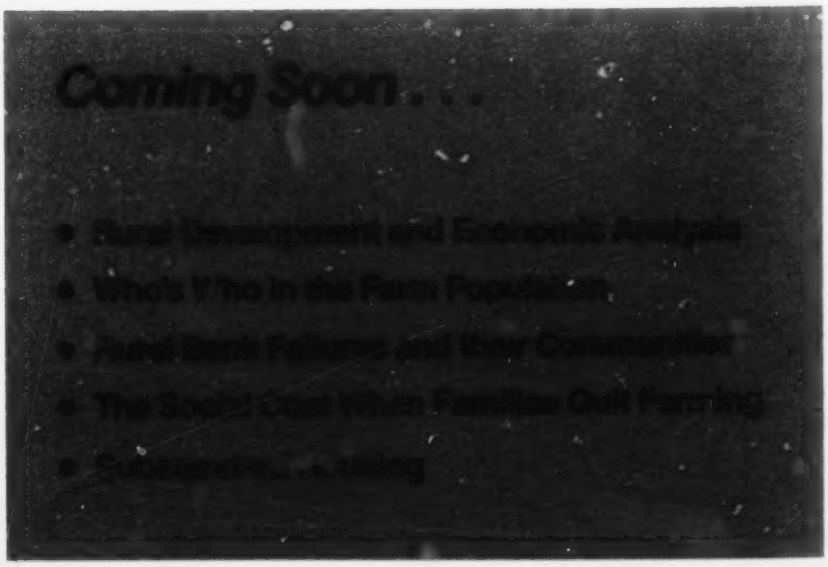
In this century we have seen rural and urban America converge in lifestyles, attitudes, and other ways. Richard Reeder examines one, sometimes surprising, aspect of that convergence in his article in this issue on rural Americans' attitudes toward government taxes and spending. He finds their attitudes toward government to be similar to those of other Americans, with some differences. Those differences, as well as the similarities, are important for rural policymakers.

Other topics in this issue include rural poverty, retirement communities, land use regulations in developing rural counties, rural crime, and problems rural doctors encounter in setting up practice.

One of the most satisfying moments in my editorship was in launching an award program to recognize the best article each year written by an Economic Research Service author. I am pleased to announce that the board has selected J. Norman Reid and Patrick J. Sullivan, coauthors of "Rural Infrastructure: How Much, How Good?" (October 1984, Volume 1, Issue 1) to be the first recipients of this award. If you missed reading it, I'd urge you to go through your back issues and take another look at it. Reid and Sullivan succinctly describe the general status of rural roads, bridges, water facilities, hospitals, and the like.

Lastly, with this issue, I bid farewell to our readers, as I shall no longer be editor of *Rural Development Perspectives*. I shall now be National Program Leader for Economic Development with USDA's Extension Service. My work on the magazine has been very rewarding. I have been pleased with our readers' response to this new publication and have enjoyed working with the authors and our editorial board. The new editor for *Rural Development Perspectives* will be Sara Mills Mazie, who was previously a policy analyst with USDA's Office of Rural Development Policy.

BETH WALTER HONADLE
Executive Editor



IN THIS ISSUE

RDP

Crime and the Countryside
by David A. McGranahan

2 The rise in rural crime rates over the last 20 years relates to somewhat different conditions than the rise in urban crime. Rural areas with high rates of crime have vacation homes, high incomes, or other opportunities for crime. But the strongest association, especially for violent crime, is with families with one or both parents absent.

Rural Attitudes Toward Government Taxes and Spending
by Richard J. Reeder

10 Do rural Americans' ideas about government differ from others? Not much, according to the results of this survey. In election years, however, rural residents are less supportive of Federal tax and spending policies.

How Kentucky's Hardin County Deals With Rural Growth
by Dennis A. Gordon

17 One of Kentucky's fastest growing counties solves growth problems with an innovative alternative to zoning. The plan puts growth in a rural context, giving as much preference to preserving farmland as to commercial uses of land.

New Physicians Setting Up a Rural Practice: It Isn't Easy
by E. Evan Brown, H. Max Miller, M. Julian Duttera, and Gerald R. Hummel

20 New physicians are more likely to run into problems in setting up a rural practice than an urban one. But those problems can be overcome, if the physician knows what to expect, and the community and local medical association work together to smooth over the roughest spots.

What Makes Poverty So Intractable in High-Poverty Nonmetro Counties?
by Elizabeth S. Morrissey

24 Aside from income transfer programs, the options for helping the poor in counties with high poverty rates are few. Such counties generally have large proportions of the poverty-prone and the poorly educated, who often do not benefit from general economic development programs.

Getting a Job in Poor Counties of the Rural South
by Woong K. Cho

29 Lack of job opportunities is the major problem in finding work, said more than half of those who responded to a survey. Other major problems were not knowing the right people and too little education. Without jobs, many were left behind despite the rural revival of the seventies.

Should the Rural Elderly Opt for the New Equity Conversion Plans?
by Carol B. Meeks

32 With equity conversion plans, the latest wrinkle in the housing market, the elderly can convert their home equity into cash. But homeowners are advised to go slowly. Under some of the plans, they could lose their home, become ineligible for assistance programs, and face higher income taxes.

Photo by Dennis A. Gordon

USDA photo

36 Rural Indicators
Retirement: A Growing Part of Rural Economies

38 Book Reviews
Industrial Incentives
The States and Distressed Communities
Improving Impact Assessment
Socioeconomic Impact Management
The Elderly in Rural Society

40 Short Subjects

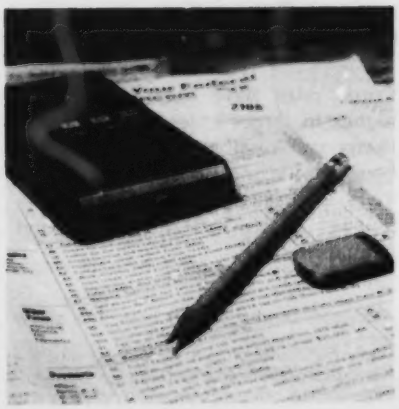


Photo by J. Norman Reid

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David A. McGranahan

Crime and the Countryside

Rural crime rates, though less than urban rates, now exceed the urban level of 20 years ago. Because the crime increase came at about the same time as renewed rural population growth, some blamed the growth itself. But incomplete or broken families (measured by the percentage of children not living with both parents) is a key link to rural crime—not poverty, race, or population growth.

After remaining fairly constant over several decades, crime rates rose dramatically in the 1960's. While much of the attention focused on urban crime, crime rose in small towns and rural areas as well. By the mid-1970's, reported crime in nonmetro areas exceeded the 1960 rates of metropolitan areas.

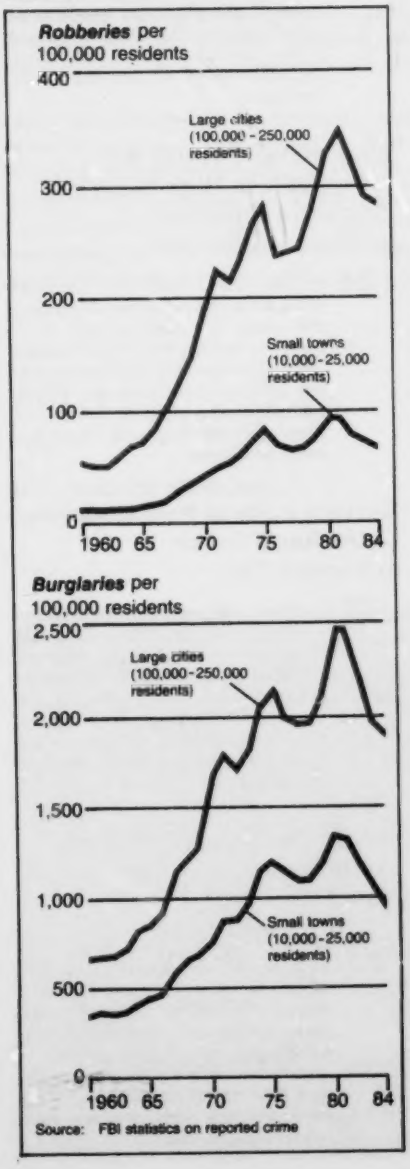
This article focuses on three questions relating to the increase in reported crime in small towns and rural areas.

- Does rural crime represent a spread of an urban problem to rural areas?
- Do large cities and small towns have different types of crime?
- Is crime associated with particular social and economic characteristics such as race or poverty?

Crime on the Rise All Over

Crime rates have been consistently higher in larger cities than in small towns and rural areas since the FBI began collecting such data in 1932. Rises and falls in crime rates have followed similar patterns in small and large towns.

Figure 1
Crime in small towns and large cities follows same time trends



Source: FBI statistics on reported crime

The burglary rate in cities of 100,000–250,000 residents began to rise in the 1950's, and tripled between 1960 and 1975 (fig. 1). After a brief drop, burglary rose to a new peak in 1980, then began a slight decline. This pattern over time is almost exactly the same as for towns of 10,000–25,000 residents. Burglary rose considerably in small towns during the 1960's and early 1970's, but the burglary rate in these towns was consistently 45–50 percent lower than in large cities.

The robbery rate has risen and fallen in a pattern almost identical to that of burglary. Again, small towns mirrored big city patterns. Robbery, a violent crime involving personal confrontation, often takes place in the street. It is more of an urban crime than burglary. Robbery rates since 1960 have been only 25–30 percent as high in small towns as in larger cities.

Other types of crime follow similar patterns. Although changes in the definition of particular crimes (rape, larceny) in the FBI's reports preclude some long-term comparisons, there is little evidence that crime rises (or falls) first in large cities and then spreads to small towns. Large cities and small towns are affected almost simultaneously by national crime trends.

Statistics on nonmetro crime have been somewhat less reliable than metro data because reports covered only about 70 percent of the rural areas until the mid-1970's. Furthermore, crime statistics showing metro-nonmetro comparisons have been available only since 1960.

According to these statistics, crime jumped in both metro and nonmetro areas from 1960–80 (table 1). With the exception of assault, violent crimes rose more quickly in metro areas, while property crimes rose more quickly in nonmetro areas. From 1980–83, however, reported crime rates fell in both

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Table 1—Police blotter: Nonmetro crimes reported

Type of Crime	Nonmetro			Change, 1960–80		Change, 1980–83	
	1960	1980	1983	Metro	Nonmetro	Metro	Nonmetro
	Offenses per 100,000 residents			*Percent*			
Violent crime:							
Homicide	5.5	6.8	5.5	135	24	−28	−19
Rape	6.4	17.6	17.5	281	175	−10	−1
Robbery	15.8	40.1	30.0	272	154	−14	−25
Assault	53.0	189.0	171.0	212	257	−7	−10
Property crime:							
Burglary	294.0	1,010.9	812.2	202	144	−21	−20
Larceny	*	2,135.1	1,828.1	*	*	−9	−14
Motor vehicle theft	68.5	186.6	136.3	145	172	−14	−27
Total (excluding larceny)	433	1,451	1,173	196	227	−18	−19

*Data unavailable.

metro and nonmetro areas, with robbery, burglary, and motor theft falling most rapidly in nonmetro areas. These declines may reflect greater protective measures taken by nonmetro residents and businesses as they became aware that they, like their urban cousins, are also subject to crime. Also, teenagers are involved in a high proportion of property crime. The postwar baby boom, which peaked in 1957–61, boosted the proportion of teenagers in the population during the 1970's; this proportion has since declined.

Metro, Nonmetro Areas Have Different Types of Crime

While both the victimization surveys (see box) and the FBI statistics on reported crime place nonmetro crime rates below those of metro areas, the differences are less in the victimization surveys. Nonmetro robbery rates in 1980, for instance, were only 13 percent as high as metro rates according to FBI statistics, but were about 33 percent as high as metro rates according to the victimization surveys (table 2).

Part of the difference is that nonmetro residents who are victimized in metro areas are counted as nonmetro victims by the surveys but as metro victims by local police. Also, for burglary and robbery at least, crimes involving businesses, and therefore counted only in UCR data, are probably more common in metro areas. Finally, nonmetro crimes may be reported to the police less often.

Table 2—Household surveys show similarity in metro-nonmetro 1980 crime rates

Type of crime	Household survey[1]		Offenses reported to police[2]
	Nonmetro offenses per 100,000 residents[3]	— *Percent of metro rate* —	
Residents:			
Homicide	*	*	60
Forcible rape	68	69	41
Robbery	253	31	13
Aggravated assault	688	70	58
Personal larceny	5,472	62	61[4]
With contact	86	23	*
Without contact	5,386	64	*
Households:			
Burglary	5,818	64	50
Forcible entry	1,578	46	*
Without force	3,263	90	*
Larceny	9,232	69	*
Vehicle theft	727	37	29

*Data unavailable.
[1]Source: National Crime Survey, 1980.
[2]Source: FBI Uniform Crime Report, 1980.
[3]Age 12 and over.
[4]All larceny.

The data are consistent in showing that, compared with other crimes, rates of robbery and motor vehicle theft are relatively low in nonmetro areas. There are greater opportunities for those crimes, and crimes like purse-snatching (personal larceny with contact), in highly urban settings.

While the rate of household burglary involving break-ins is much lower in nonmetro than in metro areas, the rates are nearly comparable for household

burglary without forcible entry. This suggests that, at least in 1980, nonmetro residents were taking fewer precautions against burglary than metro residents were.

Counties with High Crime

Crime is highest in areas where opportunities for crime are great, where poverty and income inequality are high, and where community and family ties are weak. These are typical links with crime in metropolitan areas. What about crime in the towns and rural areas of nonmetro America?

Nonmetro crime has some, but not all, of the demographic links of metro crime (fig. 2). Violent crime in nonmetro areas is linked with different characteristics from property crime. Of the 10 characteristics considered, the percentage of population under 18 not living with both parents (broken families) is most highly associated with violent crime (see box). About 20 percent of nonmetro youth lived with only one or no parents in 1980. In general, each percentage point higher (or lower) than this average meant a 20 percent higher (or lower) county violent crime rate, a large difference.

Other links with nonmetro violent crime are employment in nonfarm occupations, the proportion of blacks, and the size of the urban population (nonmetro towns may have up to 50,000 residents). Urban centers provide opportunities for crime, especially for street robbery. The link between violent crime and nonfarm employment reflects in part the fact that nonfarm employment is greater in more urban, crime-prone settings. It also reflects the especially low crime rates in the farming areas of the Midwest. Crime is relatively high in the South and West, regions of strong nonmetro population growth during the 1970's.

Perhaps most surprising is the only modest association between poverty and violent crime in nonmetro areas, especially since family weakness is high where poverty is high.

Nonmetro property crime, like violent crime, is higher in more urban areas and outside of farming counties. But property crime is not higher where family structure is weak or where the proportion of blacks in the population is high. Property crime is low, not high, where poverty is high, perhaps because there is less to steal, perhaps also because the poor tend not to report crimes to police.

Property crime tends to be higher in nonmetro areas with a high proportion of young people, and where seasonally vacant housing in recreation areas provides opportunities. Property crime, like violent crime, is somewhat higher where population grew rapidly during the 1970's.

Sources of Crime Data

FBI statistics, based on Uniform Crime Reports (UCR) from local police agencies, have several drawbacks. Many crimes are not reported to the police. Victims may feel that the crime is too trivial; that the offender will not be caught or, especially in the case of rape, that reporting to the police will itself be traumatic.

A second drawback is that the rates do not always reflect the risk of crime. Crime is recorded according to place of occurrence, and rates are based on the number of residents. Victims, however, include businesses, visiting shoppers, commuters, and tourists as well as residents. This tends to raise the rates of large cities and recreation areas where the number of potential victims may be much larger than the residential population.

Finally, since local law enforcement agency reports to the FBI are voluntary, the FBI has had to estimate crime rates, particularly in rural areas. In 1983, 90 percent of the rural United States was covered, but until 1970, FBI estimates of rural crime were based on only 70 percent of rural areas.

To assess more directly the extent of personal and household victimization, the Department of Justice, in collaboration with the Bureau of Census, initiated an annual National Crime Survey (NCS) of households in 1973 to supplement the UCR series. Only the UCR includes crimes against businesses and is available in sufficient detail to assess crime levels for counties, cities, and States.

Household victimization surveys have consistently found that only a third of all crimes against persons or households are reported to the police. Those not reported tend to be less serious. For instance, the 1980 NCS found that 72 percent of thefts with losses of over $1,000 were reported, while only 29 percent with losses of $50–$99 were reported, and smaller losses were reported even less often.

During the 1970's, the NCS results were inconsistent with the FBI statistics on reported crime in two respects. First, the number of crimes said to have been reported to the police was higher than the number shown in the FBI's UCR statistics. Second, the NCS victimization studies showed no rise in crime reported over time, while the UCR showed substantial increases, except for the mid-1970's. Differences in coverage (only the UCR series includes businesses) in the bases used to calculate rates and in the ways that crime is counted can explain only part of the discrepancy in trends. If one accepts the victimization survey results as valid, then the rises in UCR-reported crime reflected improvements in data gathering rather than substantial increases in crime. However, the FBI's UCR statistics tended to correspond more closely than the NCS to a third set of data, number of homicides as compiled by the National Center for Health Statistics (NCHS) in its annual series on the causes of death. In fact, the data on causes of death, based on coroners' reports, showed a greater rise in homicides between 1960 and 1980 than did the FBI series. As it seems likely that rises and falls in homicide are accompanied by rises and falls in other types of crime, a substantial part of the rise in other crime recorded by the FBI in 1960–80 is probably real.

Family Structure Linked to Crime

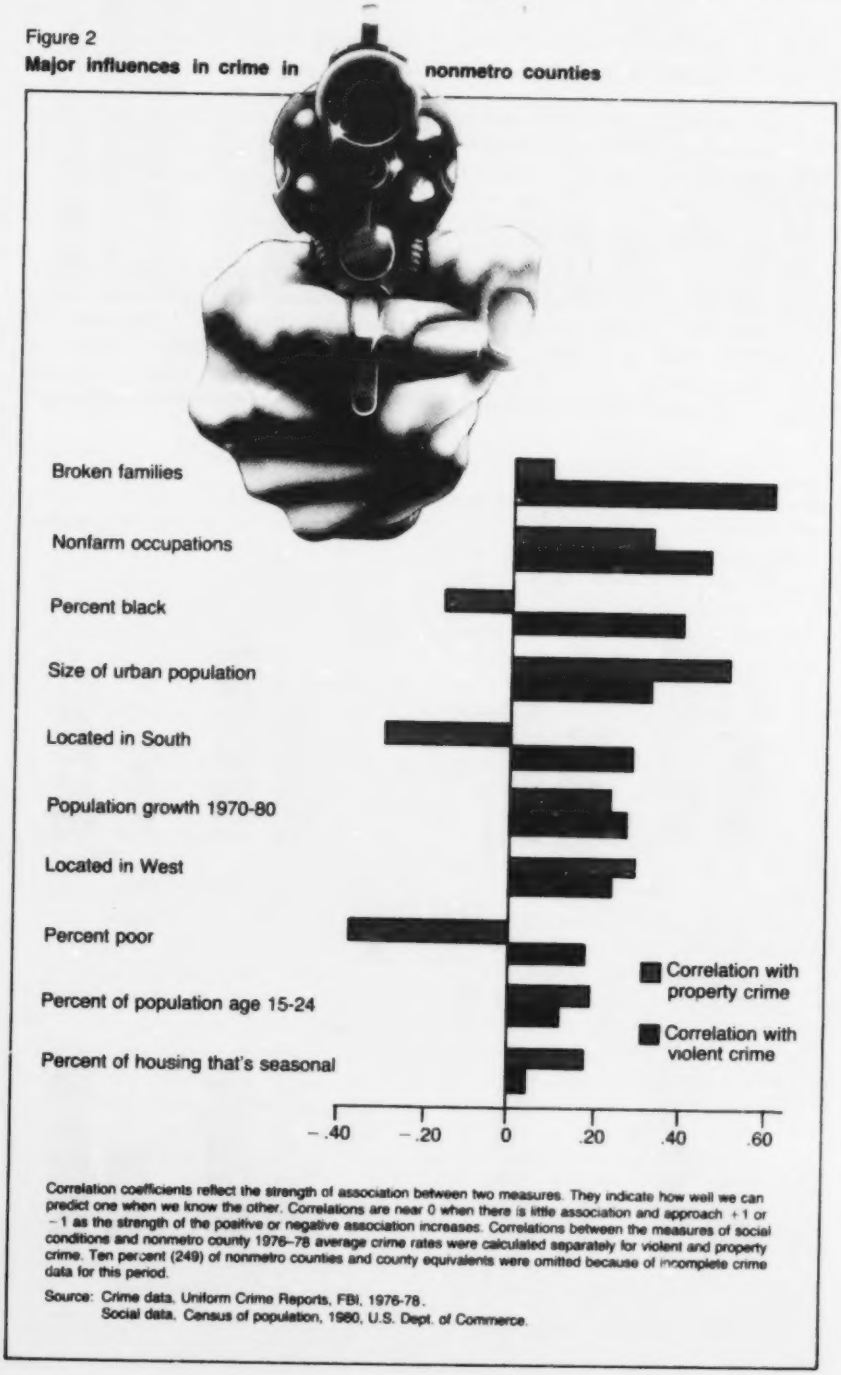
Single-parent families and poverty are interrelated and tend to be particularly high in the black population. But the incidence of children in broken families, not poverty or proportion of blacks, seems to be the variable most directly linked to nonmetro violent crime (fig. 3).

The violent crime rate for counties with above average proportions of children in broken families is 2–2.5 times as high as it is where families are relatively cohesive, regardless of whether these counties have high or low proportions of poor or blacks in their population. Furthermore, the violent crime rate in areas with above average proportions of children in divided families is about the same (3.0 to 3.4 per 10,000 residents), regardless of whether the proportion of poor or blacks is high or low. Poverty and the percentage of blacks are related to violent crime only because they are related to divided families.

Family structure is linked to nonmetro property crime in two opposing ways. On the one hand, the propensity to steal is higher where children are in divided families. On the other hand, counties with a high proportion of children in divided families have high rates of poverty, so that opportunities for property crimes are low. Among nonmetro counties with roughly comparable opportunities—high (or low) rates of poverty—those with high proportions of children in divided families have higher property crime rates. Property crime rates are about the same in counties with high poverty (low opportunity) and high divided families (high propensity), as in counties with low poverty and undivided families.

The percentage of children living with only one or neither parent has increased substantially in the past 15 years. Although violent crime rose considerably in all counties, those with an above average increase in the proportions of children in divided families in 1970–80 had a much larger jump in violent crime (98 percent) than did counties where family structure was relatively stable (57 percent) (fig. 4). For counties with both above average proportions of children in broken families in 1970 and an above average increase in broken families from 1970–80, the violent crime rate for 1976–78 was more than triple the rate of counties with relatively low levels of, and low increases in, broken families.

Figure 2
Major influences in crime in nonmetro counties



Correlation coefficients reflect the strength of association between two measures. They indicate how well we can predict one when we know the other. Correlations are near 0 when there is little association and approach +1 or −1 as the strength of the positive or negative association increases. Correlations between the measures of social conditions and nonmetro county 1976–78 average crime rates were calculated separately for violent and property crime. Ten percent (249) of nonmetro counties and county equivalents were omitted because of incomplete crime data for this period.

Source: Crime data, Uniform Crime Reports, FBI, 1976-78.
Social data, Census of population, 1980, U.S. Dept. of Commerce.

Crime and Population Growth

Both violent and property crime rates are higher where population grew rapidly from 1970–80 (fig. 5). One reason is that nonmetro counties with initially higher crime rates tended to have higher growth rates as well during the 1970's. The low-crime farming counties of the Midwest grew slowly, if at all, while the relatively high-crime nonmetro counties of the South and West attracted newcomers.

Although nonmetro crime rates tend to be high where population growth was rapid, they did not rise faster in counties with high rates of population growth, except in the West, and even there only in the case of violent crime (fig. 5). Even in the West, growth probably did not cause the rise in violent crime. If it had, the counties that grew more than twice as fast as the national average should have had a larger jump in crime than counties that grew above average but less than twice as fast. Instead the difference was only marginal: 162 percent vs 153 percent.

If the high crime rates in the West were not due to rapid population growth, what were they due to? Again, we come back to family structure. Increases in incomplete or broken families were greater in the nonmetro West than in other nonmetro areas: 70 percent of the nonmetro western counties had above average proportions of children in divided families vs 50 percent in other nonmetro counties. Even so, that accounts for only some of the higher increase in violent crime in the West.

• • •

The rise in crime over the past 20 years was pervasive, affecting rural and urban areas alike. Residents of counties that experienced considerable growth or greater contact with urban living and lifestyles may feel that this change itself

Sign of the times in small towns and big.

Figure 3
Broken families, not poverty or race, is key link to rural crime

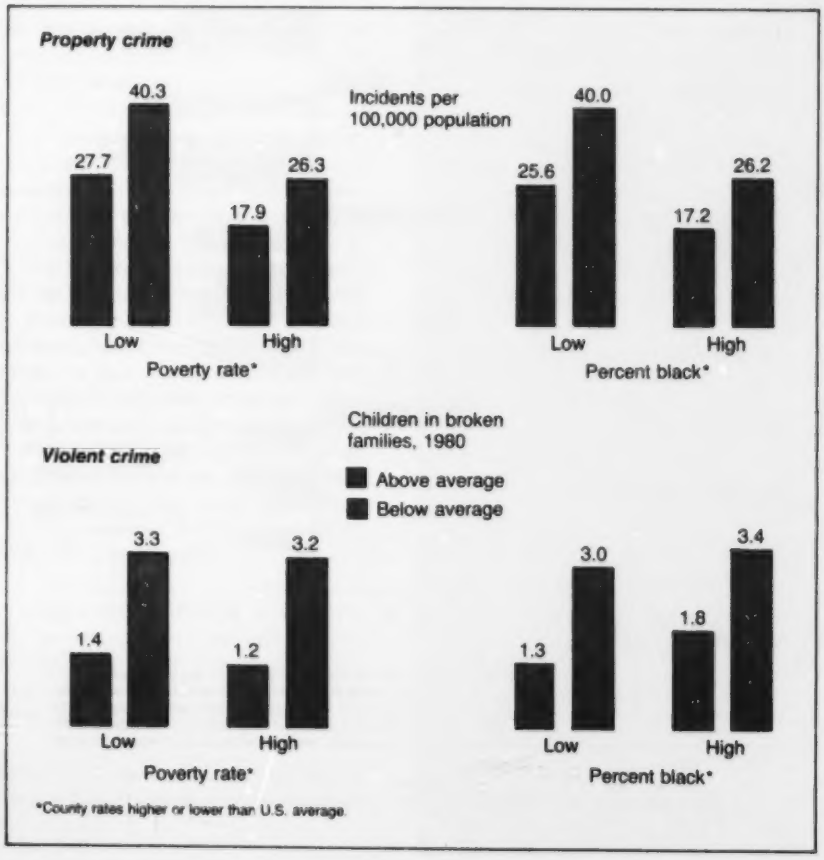
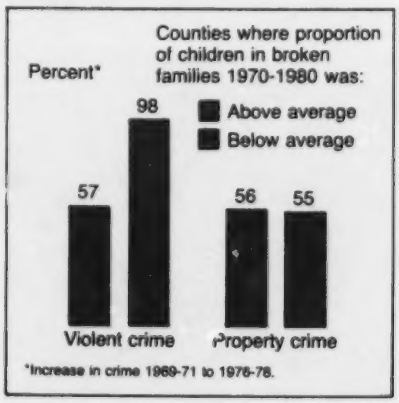


Figure 4
Violent crime rose fastest where increase in children in broken families was greatest

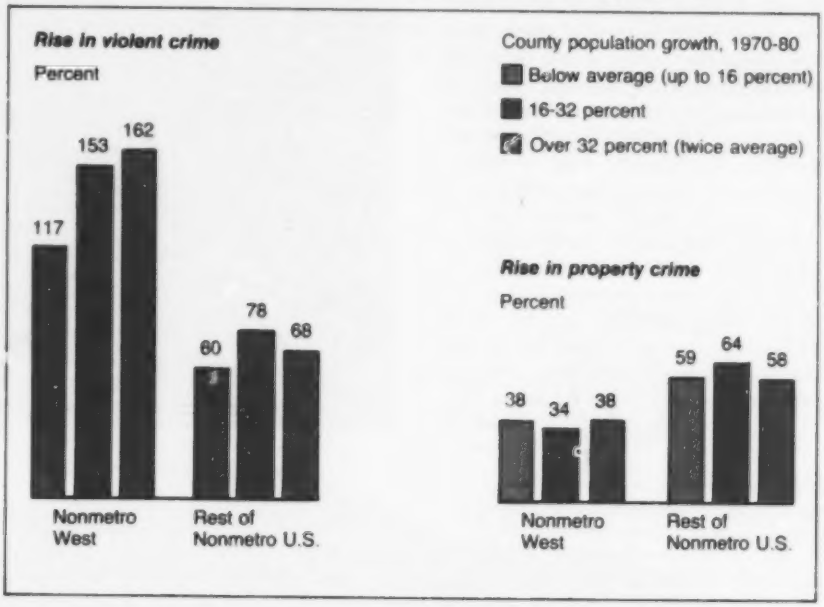


was responsible. That may be true in some cases, but the rise in crime generally was less a local phenomenon than a national phenomenon felt at the local level. Urban-rural differences have not diminished considerably.

Local crime rates depend to some extent on opportunities for crime. The more wealthy an area, the more there is to steal. The more houses are used seasonally, the easier they are to burglarize. To combat the rise in rural crime, State agencies have developed prevention education programs designed for small town and rural residents and businesses, and some States have undertaken research projects specifically focusing on rural residents (see box).

While prevention programs may help reduce victimization by limiting opportunities for criminal behavior, the rise in crime in the past 20 years was not simply the result of increased opportunities. Ultimately, research and policy

Figure 5
Violent crime rose most in the nonmetro West for all levels of population growth.



Crime Curricula

The Oklahoma Cooperative Extension Service has prepared a training notebook, *Rural Crime Prevention Programs*. It emphasizes farm security, neighborhood watch, home security, personal protection, fraud and con games, and vandalism.

For a copy, write to Gary Holland, Community and Rural Development Specialist, Oklahoma State University, Cooperative Extension Service, Stillwater, Okla. 74078; telephone (405) 624–5400.

And Texas A&M University offers a rural crime prevention course designed for vocational agricultural high school students. For more information, write to Fred Cross, Texas Agricultural Extension Service, Texas A&M University, Box 1177, Stephenville, Tex. 76401; telephone (817) 968–4144.

Another Perspective on Rural Crime

Nearly 32 percent of those surveyed recently in 16 western North Dakota counties reported being victimized. Vandalism, larceny, and robbery were the most frequent types of crime.

The high level of robbery found in that study differs from rural crime research in other States. James Larson, director of the Social Science Research Institute at the University of North Dakota, Grand Forks, speculates that the diversity of cultures and lifestyles in rural America creates local crime patterns unique to an area.

Larson also found that older persons were less likely to be victims than younger persons, but expressed greater concern about being injured.

For more information, write or call James Larson, Director, Social Science Research Center Institute, University of North Dakota, Grand Forks, ND 58202; telephone (701) 777–2187.

Crime Tips on Tape

"Rural Crime: They're Stealing the Farm" is an 18-minute film produced on behalf of the California Rural Crime Prevention Task Force. It includes information about property identification; how to reduce theft of equipment, livestock, and grain; and rural neighborhood watch programs. Rental fee is $25. Write to Alms Media, 6901 Woodley Ave., Van Nuys, Calif. 91406–4878; telephone (818) 785–4111.

The American Association of Retired Persons offers a series of slide and tape presentations dealing with crime. Topics include "Beating the Burglar," "Neighborhood Watch," "Self Protection," "Wipe Out Vandalism," "Fraud and Other Con Games," "Crime Prevention What and Why," and more. Each runs 15–20 minutes and rents for $20 per set. Write AARP (CJS), P.O. Box 19269, Station C, Washington, D.C. 20036; telephone (202) 728–4363.

must be directed toward the more difficult question of reducing people's propensity to commit crime, even given the opportunity. Of the social characteristics considered in this study, by far the most important is broken families—the percentage of children not living with two parents. While crime increased substantially everywhere, rises in violent crime rates during the 1970's were almost twice as high in nonmetro counties where this measure of family weakness grew more than average. The association between the decline in the traditional family structure and the rise in crime is not simply cause and effect; both may represent underlying problems of social and personal disorganization. RDP

Higher levels of rural crime reflect general crime trends, not a spillover of big-city crime.

Photo by J. Norman Reid

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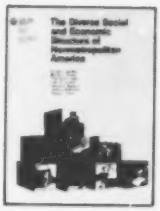

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( ) *Physicians in Nonmetro Areas During the 1970's.* March 1985, 28 pages, $1.50, GPO order no. 001-019-00380-4.

( ) *Distribution of Employment Growth in 10 Georgia Counties: A Case Study.* Nov. 1985, 52 pages, $1.75, GPO order no. 001-019-00412-6.

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Richard J. Reeder

Rural Attitudes Toward Government Taxes and Spending

Rural Americans' attitudes toward government are like those of the rest of America: they'd like less government in general, but they do not support cuts in specific programs. They are slightly less supportive of government spending than the general public, particularly during election years. Based on responses to public opinion polls.

Faced with limited resources and growing costs, elected officials often have to decide between cutting services or raising taxes. Such decisions hinge on many factors, not the least of which is public opinion. The views of Americans on taxes and government spending, as reported in national opinion polls of the Advisory Commission on Intergovernmental Relations, are the subject of this article. It focuses on the responses of the rural (or nonmetropolitan) population to three questions: (1) What do rural Americans think about government in general, and about government taxes and spending in particular? (2) How do rural attitudes differ from those of the general public? (3) Have rural attitudes changed in recent years?

Government officials representing rural areas need to know how rural Americans feel about important governmental issues if they are to represent their constituencies adequately. Do rural residents oppose the growth of government, particularly the central government? Do they favor Federal withdrawal from any particular function? What proposed changes in the Federal income tax do they prefer? If more revenue must be raised at the State and local level, how should it be raised?

I used the public opinion polls of the Advisory Commission on Intergovernmental Relations (ACIR) to see what rural people themselves say about these issues. Published annually since 1972, ACIR's *Changing Public Attitudes on Governments and Taxes* offers the most comprehensive information on the way Americans view their governments' tax and spending policies. Based on a national, stratified sample of both urban and rural residents, the poll allows comparison of rural opinions with those of the total public.

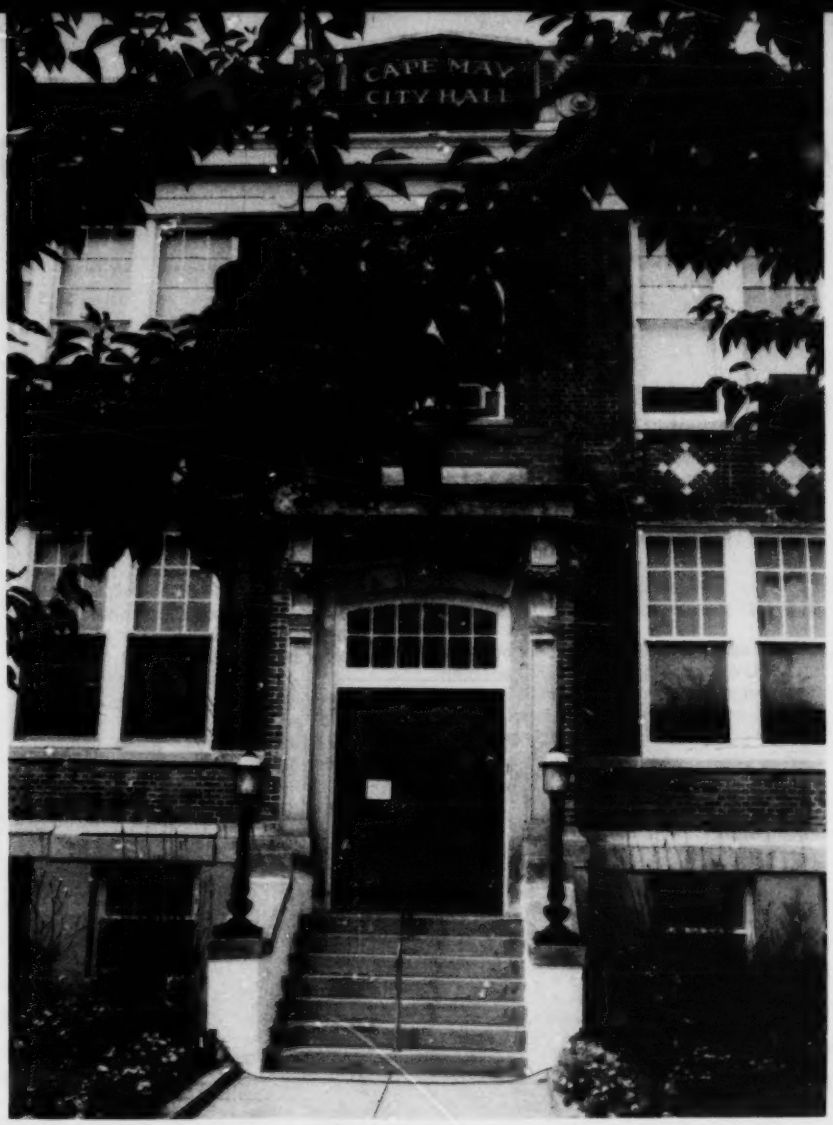

Photo by J. Norman Reid

Limit Government Growth

Since the mid-1970's, public officials have tried to restrain government taxes and spending. The poll suggests that these actions were well advised, since a fairly large share of those interviewed for the survey favored budget cuts. In 6 of the 8 years from 1975–82, the poll asked whether the level of all government spending and taxes should increase, decrease, or stay the same. In each year when this question was asked, 30 percent or more favored less government spending and taxes; less than 10 percent favored more government spending and taxes (fig. 1).

Rural Americans favored less spending to a greater extent than the total public in five of the six polls. The gap between the rural response and that of the total

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public was greatest in 1976 and 1980 (presidential election years) and was small or negative in 1975 and 1982 (recession years). A similar pattern of negative views toward government during election years and positive views toward government during recession years is observed in the rural responses to some other questions. Perhaps during election years, many rural Americans voice their philosophical beliefs in limited government; but during hard times, they want a more active government.

The Federal Government Is Not Too Strong

Rural Americans may prefer less government spending and taxes, but this does not mean that they oppose a strong Federal Government. The 1984 survey found that only 39 percent of rural residents said the Federal Government had too much power, while 29 percent said it had too little, and 25 percent said its power was about right (table 1). Although more favored less power than more power, most rural residents still favored maintaining or increasing it.

The general public was evenly divided (at 34–35 percent) between too much and too little power. This suggests that rural residents have more negative feelings than metro residents about the Federal Government. But in 1978 and 1982, the rural response to this question was almost identical to that of the total public. Hence, rural attitudes differed from those of the total public in only 1 of the 3 years the question was asked—a presidential election year.

Federal Spending Gets the Most for the Money

Another question asked, "From which level of government do you feel you get the most for your money—Federal, State, or local?" Rural residents joined the general public in choosing the Federal Government over each of the other two levels of government in 10 of the last 13 years (table 2). Although rural residents generally responded less favorably to the Federal Government than did the total public, the percentage difference between rural and total public was small in most years (fig. 2).

About the Survey

Since 1972, ACIR's public opinion poll has been taken in the spring of each year, with the exception of 1981, when the poll was taken in September. Over the years, the size and composition of the sample, as well as the polling organization, have changed.

For the purposes of this article, the most significant changes concern the way responses for nonmetro areas were reported. For the surveys taken in 1981 and 1972–74, nonmetro responses were reported under two separate categories: "rural-nonmetro" (population less than 2,500) and "urban-nonmetro" (population 2,500 and above). From 1975–80, only one "rural" category (comparable to the "rural-nonmetro" category) was reported. Beginning in 1982, a more comprehensive "nonmetro" category (all places outside of Standard Metropolitan Statistical Areas) has been used.

To simplify things, the charts and tables in this article report responses for the "rural" (or "rural-nonmetro") category for the years when this category was used; responses from 1982–84, when only the nonmetro category was used, are reported as if they were comparable with the rural category of earlier years. I made no attempt to compare rural with urban responses because the urban categories were too complex for simple comparisons. Consequently, this article compares rural responses to those of the total public.

Charts may not show responses for all years from 1972–84 because not all questions are asked every year. Numbers in tables and charts may not add to 100 percent because all responses for all questions are not always shown. For example, responses for those who answered "don't know" are not shown.

The most recent ACIR poll examined in this article was conducted in 1984 by the Gallup Organization. It included a total of 1,516 interviews, of which 562 were from nonmetropolitan areas. The recommended 95-percent confidence interval for nonmetro survey responses is approximately plus or minus 4 percentage points (however, this may vary 1 or 2 percentage points depending on the question).

Figure 1
Do you want less or more government services and taxes?

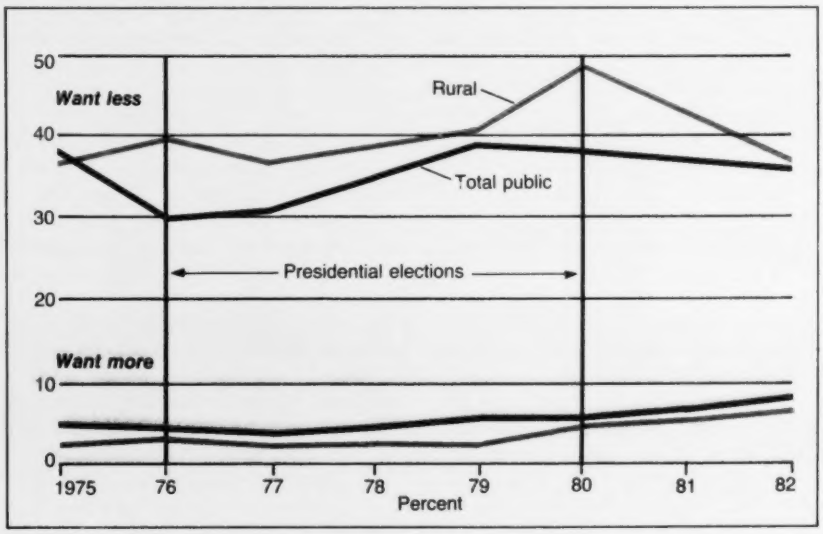


Table 1—Does the Federal Government have the right amount of power? Rural views differ only slightly from those of the public at large

The Federal Government has	1984		1982		1978	
	Rural	Total public	Rural	Total public	Rural	Total public
			Percent			
Too much power	39	35	37	38	38	38
The right amount of power	25	25	16	18	18	18
Not enough power	29	34	31	30	33	36

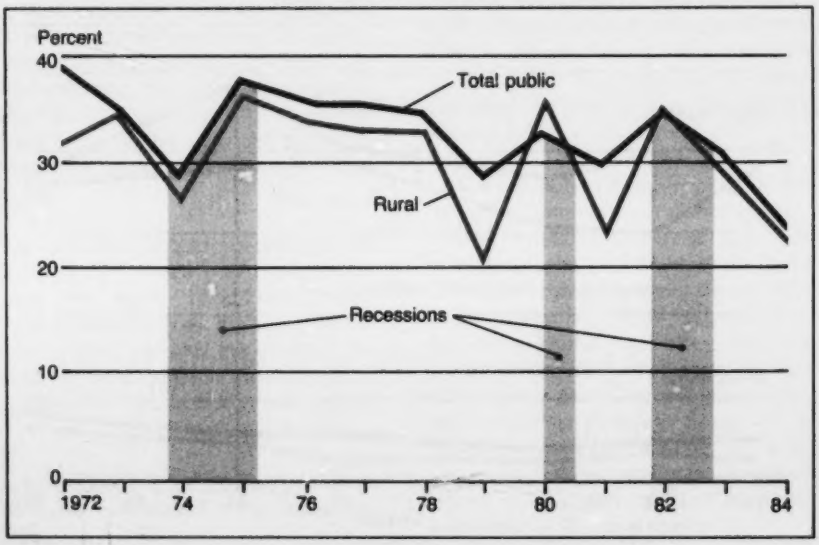
Note: Percentages may not add to 100 because some responses, such as "don't know," are not shown.

Table 2—Which level of government gives rural Americans the most for their money?

Year	Federal	State	Local
		Percent	
1984	22	30	34
1983	29	23	28
1982	35	21	28
1981	23	29	26
1980	35	21	23
1979	20	31	27
1978	33	19	24
1977	33	25	20
1976	34	21	30
1975	37	21	24
1974	26	25	25
1973	35	20	21
1972	33	20	26

Note: Percentages for each year do not add up to 100 because all responses, such as "don't know," are not shown.

Figure 2
Those who say the Federal Government gives them the most for their money



Since the early 1970's, the perceived value of Federal spending has dropped noticeably. The percentage of the total public saying it gets the most from Federal spending fell from a 1972 high of 39 percent to a 1984 low of 24 percent. Rural attitudes on the worthiness of Federal spending also fell over this period. But large year-to-year fluctuations make it difficult to judge the longrun significance of these changes. For rural residents, the low point for the Federal Government came in 1979, when only 20 percent said Federal spending was more worthwhile than State and local government spending.

Cut Spending To Reduce the Deficit

The 1984 poll asked about options for reducing the Federal deficit. Most respondents favored less spending, while relatively few (7 percent) favored tax increases. Rural residents were more in favor of spending decreases than the total public, but the difference was only 3 percentage points.

A followup question asked which of three types of Federal programs should be reduced if Federal spending must be cut: defense, social security and Medicare, or other Federal programs "such as farm supports, veterans' benefits, welfare, education, and transportation aid." Most respondents chose to cut defense spending (48 percent rural versus 50 percent total). "Other" programs were also favored for cuts (36 percent rural versus 31 percent total).

However, the public does not generally support cuts in specific functions. When asked, in the 1981 survey, "From which functions would you like to see the federal government withdraw?" no more than 40 percent of rural respondents favored withdrawal from any given function, including urban-oriented mass transportation (fig. 3). Such attitudes underscore the difficulties government officials face in getting public support to cut specific programs.

Nevertheless, cuts in specific functions appear to be more acceptable to rural Americans than to the general public. This is most noticeable in functions where traditional rural values may conflict with government provision of

services. For example, 24 percent of rural respondents favored withdrawal from welfare (Aid to Families with Dependent Children); this was 9 percentage points higher than the total public. Likewise with public health assistance. The relatively negative rural view of welfare programs may reflect traditional rural values about self-reliance: public welfare assistance may be viewed as less desirable than relying on friends or family for assistance. Support of private health care and family cures and distrust of public health officials may explain the less favorable rural response toward public hospitals and health programs.

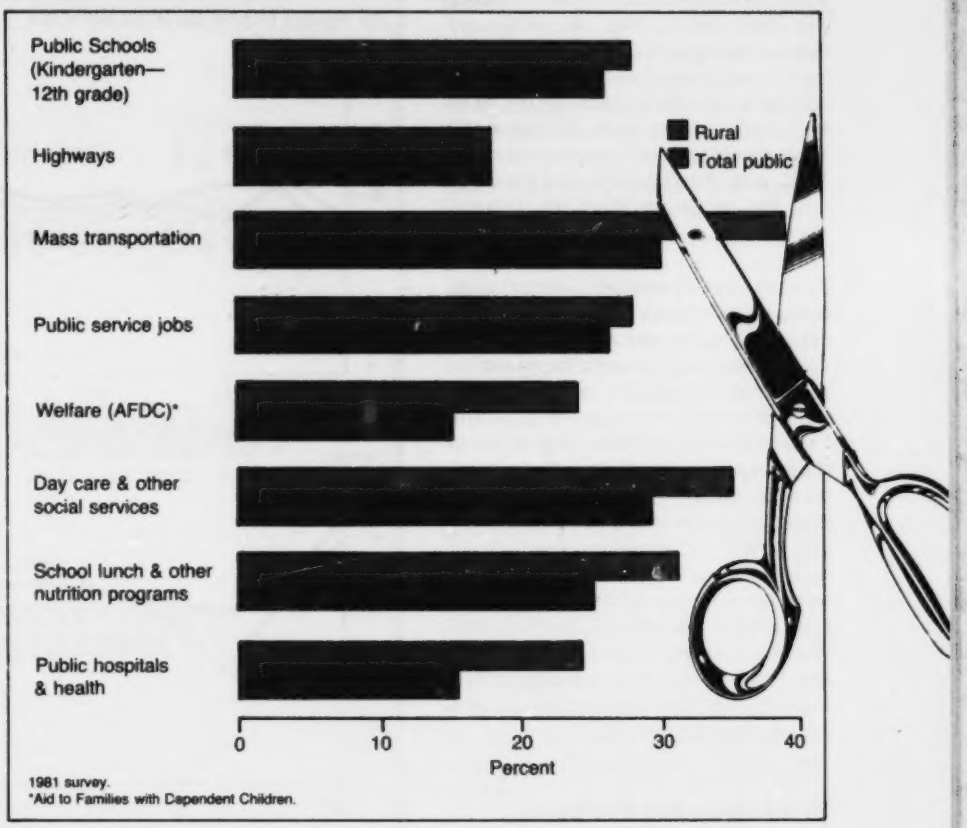
Whatever the reasons for opposition to these programs, one cannot conclude that rural Americans are insensitive to the poor. In the 1982 survey, taken when the economy was already well into the recession, people were asked to rank various types of Federal aid programs ranging from totally unnecessary to totally necessary. Rural views differed only slightly from those of the general public in support of aid to needy people and places. The largest difference reported between rural residents and the total public was for Federal grant programs that assist poor people; 33 percent of rural respondents thought that such programs were totally necessary, compared with only 29 percent of the total public. On these and other types of Federal programs mentioned in the survey—including programs targeting aid to poor States, to poor cities, and to places needing public services and facilities—most urban and rural responses were favorable.

States Should Make Up for Some Federal Spending Cuts

Federal aid to local governments has fallen since the late 1970's. Efforts to reduce the Federal budget deficit are likely to continue this trend toward reduced Federal assistance. In the face of such reductions, State and local government officials must decide how much they should make up for lost Federal funds in financing federally assisted public services.

The 1983 poll asked, "(Should States) try to make up for almost all of the Federal cutbacks,. . . only some of the Federal cutbacks, (or should they) not try to make up for any of the Federal cutbacks?" Only some of the cutbacks should be made up by the States, said 46 percent of both the rural and the total public. Only 13 percent of rural residents and 16 percent of the total public favored making up for almost all of the Federal aid cuts; only 20 percent of rural residents and 18 percent of the total public favored not making up for any of the cuts.

Figure 3
The Federal Government should cut back funding of:



1981 survey.
*Aid to Families with Dependent Children.

If States and localities must accept some reduced services as a result of cuts in Federal aid, public officials must decide which services to cut back. One 1981 survey question ,addressed this issue indirectly: "Supposing the budgets of your State and local governments have to be curtailed, which one of these parts of the budget would you limit most severely?" The choices offered were public safety (fire, police, criminal justice), public schools (kindergarten—12th grade), tax-supported colleges and universities, aid to the needy, streets and highways, and parks and recreation.

Only two of the choices received more than 10-percent approval for budget cuts: tax-supported colleges and universities (22 percent of rural public, 24 percent of total public) and parks and recreation (54 percent of rural public, 45 percent of total public). But these two functions are not very large parts of State and local budgets. Thus, it would be difficult to make up for substantial cuts in aid by reducing spending on these functions. Clearly, State and local officials will have to cut expenditures for some popular programs if Federal aid is reduced in a big way.

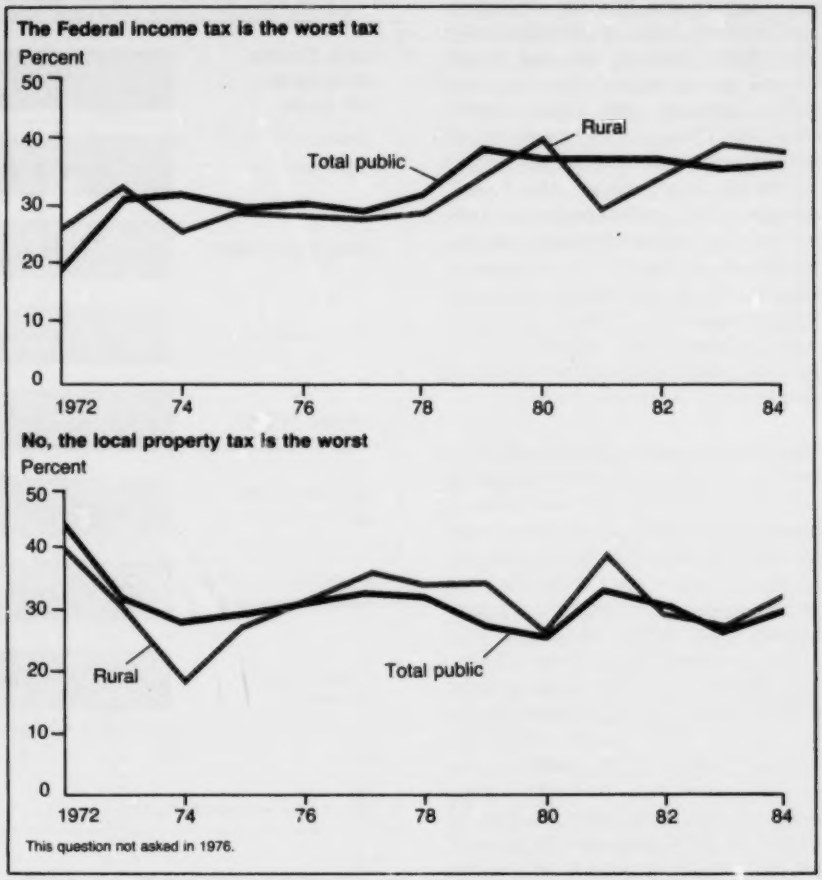
Federal Taxes Are Unfair

Rural attitudes toward taxes are much like those of all Americans. This is shown by the responses to the poll's annual question, "Which do you think is the worst tax, that is, the least fair?" Of the five choices offered (Federal income tax, State income tax, State sales tax, local property tax, and don't know/no answer), the Federal income tax came

to be identified in the 1980's as the worst tax for both rural respondents and the total public (fig. 4). Although attitudes toward the local property tax, which had been viewed as the worst tax during the middle and late 1970's, have improved in recent years, there are still large annual fluctuations. As recently as 1981, rural Americans viewed the property tax as worse than the Federal income tax.

The sharpest differences between rural attitudes and those of the total public come during recessions and presidential election years. During the recession years of 1974 and 1981, rural attitudes were distinctly more favorable to the Federal income tax than were those of the total public. Rural views on the local property tax were notably less negative than those of the total public in only one year, 1974 (a recession year). Rural attitudes toward the Federal income tax were more negative than those of the total public in 5 years, 3 of which were presidential election years (1972, 1980, and 1984). This question was not asked in 1976, the other presidential election year during this period.

Figure 4



Sales Taxes Are Preferred

Both rural Americans and the total public preferred State government taxes to Federal and local taxes. Only 7 percent of nonmetro respondents chose the State income tax as the worst tax in 1984; only 11 percent chose the State sales tax. For the total public, 10 percent chose the State income tax as the worst and 15 percent chose the State sales tax.

But the sales tax is clearly the most popular State tax. When the public was asked how additional revenues should be raised, the sales tax was the clear choice over Federal and State income taxes, and it was also chosen over local income and property taxes. Although the differences were slight, the rural response to the sales tax was more positive than that of the total public (fig. 5).

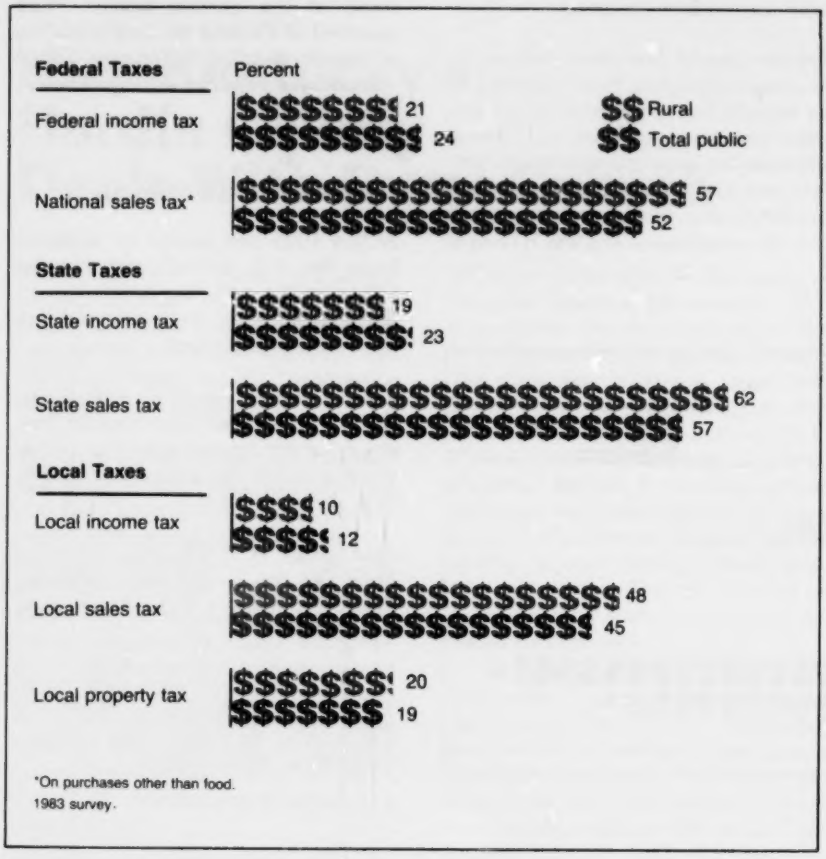
Strong rural support for the sales tax comes despite the fact that rural residents tend to have lower incomes and therefore stand to benefit from progressive income taxes that take more from the rich than the poor. However, one of the problems with the income tax may be the belief that it is not progressive enough. When asked in 1983 how to "make the Nation's tax system more fair," 49 percent of rural respondents thought that taxes should be reduced for lower income taxpayers. An additional 14 percent thought that taxes should be raised for upper income taxpayers. Only 18 percent of rural respondents chose to "leave the tax system alone—it is about as fair as you are ever going to get." The remainder chose to "make business firms pay more even if it reduces the number of jobs" (6 percent); none of the above (6 percent); or don't know (9 percent). (The rural responses were within 2 percentage points of those of the total public on these answers.)

One explanation of the attitudes toward income and sales taxes is that taxpayers prefer taxes that are simple, even-handed, and require little action on the part of the taxpayer. Thus, a sales tax is preferred over the more complicated Federal income tax, with its different treatment of different types of income and its burdensome recordkeeping and filing requirements. The same rationale might explain the recent interest in reform and simplification of the Federal income tax.

Tax Reform Is Desirable

Strong support for reforming the Federal income tax is shown in the response to the 1984 survey question asking how the Federal Government could best raise taxes substantially. Almost half of the respondents, both rural and urban, chose to "raise money by reducing special tax treatment for capital gains and cutting tax deductions for charitable contributions, State and local taxes, medical expenses, etc." Only 32 percent chose to raise the revenues through a national sales tax, 7 percent chose to raise income taxes,

Figure 5
How to raise additional tax revenues



*On purchases other than food.
1983 survey.

and 14 percent answered "don't know." (The rural and urban responses were almost identical.) This suggests that people do not object so much to the idea of an income tax as they object to the exemptions and deductions of the tax.

But strong public support may be lacking when it comes to eliminating some specific tax breaks. For example, fewer respondents voiced objections when the 1977 poll asked about special tax incentives that States offer to encourage businesses to locate or expand operations within the State. Half of the total public favored such tax incentives, while only 36 percent opposed them. The rural response was even closer (43 percent favored, 42 percent opposed). Whether this reflects a belief that such policies are less effective in rural areas or whether it reflects stronger rural feelings about the inequity of such special tax breaks is unclear.

When tax reform is not offered as an option for raising additional Federal revenues, rural residents opt for a new national sales tax. Among rural respondents in the 1983 poll, 57 percent preferred "a new national sales tax on all purchases other than food," while only 21 percent chose "increasing individual income taxes." The remainder chose "don't know." The response of the total public was only slightly less enthusiastic. This suggests that people are not opposed to the idea of a new tax if the tax is simple and equitable in the eyes of the taxpayer, as appears to be the case with the sales tax.

User Charges and Social Security

Two important sources of increased government revenue in recent years, the social security payroll tax and local government user charges and fees, received little or no attention in ACIR's surveys.

To pay for rapidly rising retirement costs, the social security tax rate has risen substantially in recent years, as has the amount of income subject to the tax. This growing Federal tax burden, which falls heavily on low- and middle-income taxpayers, may be responsible for some of the increasing unpopularity of the Federal tax system. Unfortunately, ACIR's surveys have ignored the social security tax. Thus, it is possible that some of the disfavor of the Federal income tax in ACIR's surveys may actually reflect dissatisfaction with the social security tax.

The 1981 survey did ask one question about user charges. The response to this question suggests that although user charges have been used more frequently in recent years, they have not lost their popularity with the public. Over half (55 percent) of the total public indicated that if they had to raise local government revenues they would do so through "charges for specific services" (fig. 6). The rural response, at 44 percent, was less favorable toward user charges.

Two possible explanations are offered here:

- Rural governments already raise a larger share of their revenues from user charges than do urban governments, possibly resulting in excessively high charges for some rural public service users.
- Rural residents prefer local sales taxes—28 percent of rural respondents (versus 21 percent of the general public) chose to raise local government revenues with the local sales tax.

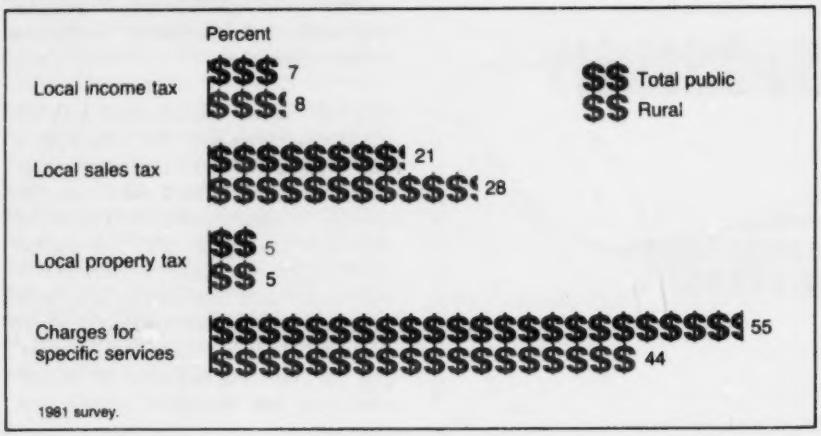
Recap

Rural Americans' attitudes toward government spending and tax policies are, in most respects, much like those of all Americans. Although many would like to see a smaller and cheaper government, they are generally pleased with the current level and makeup of Federal programs. To reduce the deficit, they prefer budget cuts to tax

increases. Their first preference for budget cuts is defense programs, followed by domestic programs (other than social security), but they are less supportive of cuts when it comes to specific domestic programs. If taxes must be increased, they agree with the general public that the best way to raise new Federal Government revenues is to eliminate special tax preferences in the income tax. Their second choice is a new national sales tax. If State and local government taxes must be raised, rural respondents prefer increasing the State sales tax and user charges.

The attitudes of rural Americans do differ in some specifics. First, they tend to be slightly less supportive of government spending in general, and Federal spending on mass transportation, welfare, and public health programs in particular. Second, they appear to be more in favor of sales taxes and less in favor of user charges. Third, rural attitudes toward government fluctuate more than those of the general public. Their approval of Federal tax and spending policies tends to fall during presidential election years and rise during recession years. RDP

Figure 6
How to finance additional local services



For Additional Reading . . .

ACIR's 1985 poll should be available from the U.S. Government Printing Office by the time this article is published. In addition, three other publications may be of interest:

Critical Choices: American Attitudes on Deficits, Taxes, and Governmental Powers. A survey conducted by Cambridge reports. Public Securities Association: New York, N.Y. 1985.

Paul Lasley, et al. *The Iowa Farm and Rural Life Poll.* Cooperative Extension Service, Iowa State Univ.: Ames, Iowa, Dec. 1984.

David O. Sears and Jack Citrin (eds.) *Tax Revolt: Something for Nothing in California.* Harvard Univ. Press, Cambridge, Mass., 1985.

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Dennis A. Gordon

How Kentucky's Hardin County Deals With Rural Growth

Here's how one of Kentucky's fastest growing counties handles its growth-related problems without resorting to "zoning." It's a first-ever approach that has been hailed as an "outstanding planning project-program."

Before the establishment of the Fort Knox Military Reservation in the mid-1940's, Hardin County, Ky., was primarily agricultural. Tobacco and corn were (and still are) the main crops. Just 45 miles southwest of Louisville (the State's largest metropolitan area), the county was slow to accept economic and social change. But the placement of several major highway junctions in the late 1950's and early 1960's at Elizabethtown, the county seat, made Hardin County the informal "hub" of Kentucky. Growth and development followed close behind.

In September 1973, Hardin County and five cities in the county—Elizabethtown, Radcliff, Vine Grove, Upton, and West Point—formed a joint city-county planning commission to develop a comprehensive plan. Controversy accompanied the effort almost from the start.

Several of the cities withdrew from the commission in early 1976 because of the controversy. The county withdrew several months later, even though some elected officials still supported the effort. Said one: "The days of Daniel Boone are over. When we see the smoke of our neighbor's chimneys, we cannot move on. We must live with it." Yet when funding ran out 3 months later, the commission was, in effect, dissolved.

More than a year after the dissolution of the joint planning commission, planning became the major campaign issue in the county's 1977 general election. The close race for county judge, who serves as the county's chief executive, pitted the outspoken incumbent R. R. Thomas, who had strongly supported planning, against a candidate whose campaign was funded largely by local development interests. Despite the continuing negative feelings toward planning and zoning, Thomas, running on a pro-planning platform, narrowly defeated his opponent.

Soon after Thomas took office, the fiscal court (the county's legislative body) voted to establish a new county planning commission. This time, the three cities that had established their own planning departments decided not to join. By early 1979, five planning commissioners had been appointed and a staff hired. We immediately began work on subdivision regulations and an official roadway system framework. With the fiscal court's quick adoption of both, the commission's public credibility began to increase. In 1980, the commission decided to propose a new comprehensive plan.

Better Luck the Second Time Around

The proposed plan was termed a "development guide," both to stay away from what had gone before, and to reflect more accurately the guide's policy planning approach. The proposal consisted of 11 planning elements, each about 35–40 pages long. This approach allowed the more controversial segments to be reviewed in detail by citizen groups and public bodies, while other elements were being adopted. To date, the fiscal court has adopted the four elements the commission has prepared: planning philosophy, transportation, community facilities, and land use. None stirred the emotions of county residents like the previous effort.

In January 1984, after considerable study, numerous public surveys, and hearings organized by the planning commission, the fiscal court adopted a land use ordinance called the Development Guidance System (DGS). The DGS is a hybrid of a land use compatibility program developed in several Colorado cities and the Land Evaluation Site Analysis (LESA) program devised by USDA's Soil Conservation Service.

The DGS provides the protection of standard zoning but is more flexible than zoning, a major factor in the fiscal court's unanimous adoption of the ordinance. That fact also contributed greatly to the public's acceptance of the regulations.

Hardin County's DGS is a distinct departure from zoning's emphasis on urban issues and values. Gone are the rigid use

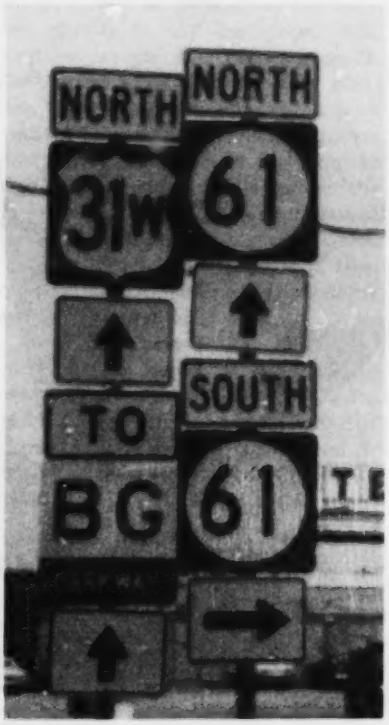


Photo by Dennis A. Gordon

Hardin County's rapid growth is reflected in this array of traffic signs at an intersection in Elizabethtown.

Dennis Gordon, AICP, is director of the Hardin County Planning and Development Commission. For more information about the Commission's efforts, contact Gordon at the Commission's office, Hardin County Court House, Elizabethtown, Kentucky 42701-1436, or call (502) 769-5479.

classifications and lines from the map. Absent, too, are the arguments over use, density, bulk, and setback, as well as procedural delays and unpredictable decisions.

Over 3 years of research went into formulating the DGS. The guiding philosophy was that, to be successful, rural land use regulations had to be guided by rural issues and values, not urban values and solutions. This belief, as well as the citizen participation opportunities it created, was central to the planning commission's efforts.

The DGS views the county as one cohesive area, not as a jigsaw puzzle of numerous use zones. Zoning classifications and districts are not used. There are few uses-by-right and even fewer prohibited uses. (Uses-by-right are considered compatible by nature and not subject to approval by way of the process.) All other development, not specificially prohibited, must obtain a conditional use permit for a specific project.

The DGS combines all planning concerns into a single policy framework. This eliminates the possibility of a developer's being shuffled back and forth between different regulations. With one application, one fee, and one process, the developer complies with all the county's development requirements.

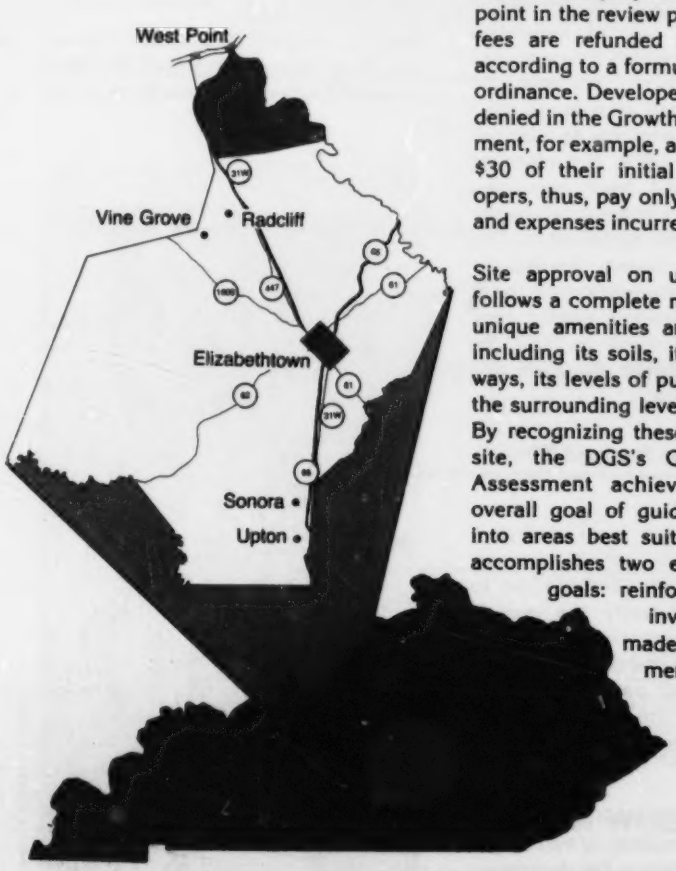
Only Three Steps for Approval

To be approved, a development proposal must pass three steps: the Growth Guidance Assessment, the Compatibility Assessment, and the Plan Assessment. Development on undeveloped sites is subject to all three steps. Changes of use are subject only to steps two and three.

Fees covering the cost of all three steps are collected when the application is filed. If the proposal is halted at any point in the review process the unused fees are refunded to the developer according to a formula included in the ordinance. Developers whose sites are denied in the Growth Guidance Assessment, for example, are refunded all but $30 of their initial payment. Developers, thus, pay only for the staff time and expenses incurred.

Site approval on undeveloped sites follows a complete review of the site's unique amenities and characteristics including its soils, its access to roadways, its levels of public services, and the surrounding level of development. By recognizing these aspects of each site, the DGS's Growth Guidance Assessment achieves the county's overall goal of guiding development into areas best suited for it. It also accomplishes two equally important goals: reinforcing the capital investments already made by local government agencies, and protecting the county's prime agricultural land.

Hardin County, Kentucky



The Growth Guidance Assessment uses a point scale in judging each site's development suitability. A development proposal must receive 150 out of 315 total possible points to receive automatic approval. Those proposals earning less than 150 points are afforded a commission review. All computations are completed on rating sheets, which are filed along with supporting data for later justification of the planning commission's action.

In the soils assessment, the planning staff computes the value of an average acre of soil on the proposed site. Soils are classified on the basis of the USDA Soil Conservation Service maps and evaluations of soil productivity. The richer the site's soil, the lower the point total for its development. The soils assessment can count for as much as 115 points.

Development proposals are also evaluated and assigned points based on 13 site amenities and characteristics, including the amount of development in the area, the quality of access roads, and the availability of schools, water lines, sewers, and fire protection. A site close to existing development and public services is awarded more points because further development there, where the county has already improved roads and extended services, will save county tax dollars. The amenities assessment can count for as much as 200 points.

Proposals earning less than 150 points on these two assessments are reviewed by the commission against the goals of the comprehensive plan and approved or denied accordingly. The owner's name and the exact location of the proposed project are unknown to the commission at the time of voting. Decisions are based solely on the merits of the site as detailed in the soils and amenities assessments. All persons and proposals are thus treated in a fair and justifiable manner.

Criteria used in this Growth Guidance Assessment were tailored to the needs of Hardin County. Soils are rated from specific local data supplied by the local Soil Conservation Service office. Likewise, all criteria in the amenities assessment, as well as their weighting factors, are based on the goals of the county.

A new subdivision going up in Hardin County. The county's Development Guidance System helps channel growth to the areas best suited for it and the county's rural character.

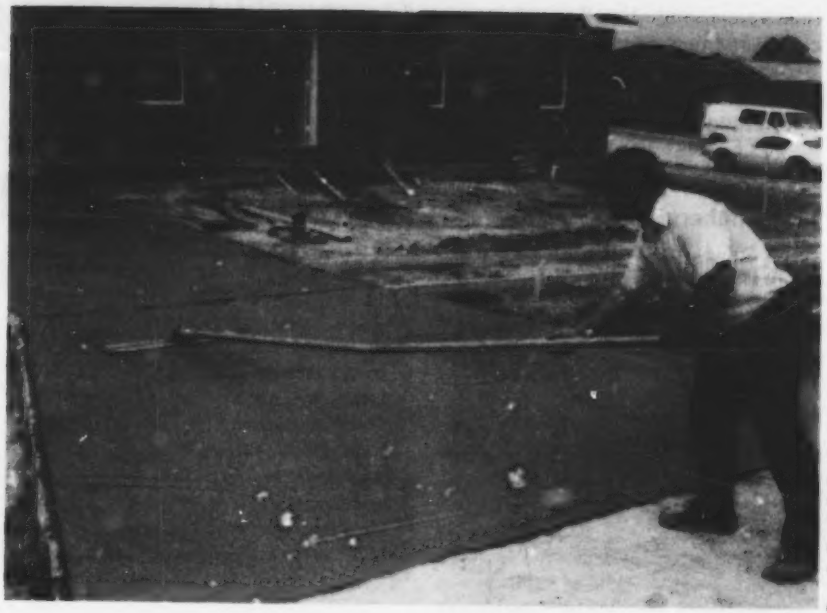


Photo by Dennis A. Gordon

These criteria can be modified or replaced easily to meet the needs of a changing population or a changing situation.

Since the DGS does not segregate land uses, the Compatibility Assessment, the second step of the process, requires an informal meeting of the developer and neighboring property owners to discuss the proposal's compatibility. This is done early in the process, before large sums of money are spent developing a proposal to submit to the planning commission. At this point, the developer tends to be much more cooperative, having not yet made a sizeable investment in the development. Affected property owners tend to be more agreeable at this point too. They are not pressed into opposition by impressive drawings which, many believe, will make it hard for the commission to side with affected property owners.

All persons owning property within 1,200 feet of the proposed site are notified by mail of this informal meeting and urged to attend. A sign is also posted on the site to alert others that a meeting is scheduled; date, time, and location are provided. The developer is required to attend the meeting and to present a sketch plan of the proposal. During the course of the meeting, the developer must explain his or her ideas and plans. The planning staff presides at the meeting, but planning commission members do not attend. Topics discussed include possible negative impacts of the proposal, such as increased traffic problems, creation of unsightly views or noise nuisances, lighting problems, loss of privacy, and any increased need for public service.

Any agreement reached between the developer and nearby property owners at this informal compatibility meeting is accepted by the planning commission during its next meeting. The terms agreed to are then entered on the conditional use permit for enforcement purposes. Developers have 6 months to meet these terms; the planning staff checks the development's progress periodically during this time. When all conditions have been met, the file is closed.

If neighbors raise compatibility issues and a compromise cannot be reached during the informal meeting, the planning commission holds a public hearing and mediates the dispute. If a compromise still cannot be reached, the commission makes a binding decision of what will be necessary to make the proposed project compatible. The developer must then decide whether to follow the planning commission's mandate and procedures or to withdraw the proposal and select another site.

After the development proposal passes the first two steps, the developer prepares a detailed development plan for the Plan Assessment. All nonresidential proposals are submitted in plot plan form, while residential subdivisions are submitted in preliminary and record plat form. Once these plot plans or plats meet county specifications and are signed by all affected agencies, the planning commission approves the project and issues conditional use permits. Construction can begin after the developer files the permits and the plans with the county clerk.

The county's previous development standards, including most of the provisions of the county's 1979 subdivision regulations, were streamlined for inclusion in the DGS. Where there were once two classifications and sets of specifications for subdivision streets, there are now five classifications and accompanying specifications. Rights-of-way and street widths, along with the need for sidewalks, curbs, and gutters, are determined using a sliding scale of average frontage per lot and street type. Street type is determined by the number of lots to use the street. Also included are options to these standards. Developers who will voluntarily plant new trees (minimum standards are included) or construct curbs and gutters are permitted to reduce the required right-of-way widths. This allows the developer to put a greater number of lots or larger lots on a given parcel. More or larger lots will, in turn, reap bigger profits, offsetting the cost of the additional amenities.

All decisions made by the planning commission within the Development Guidance System process are final. The commission's decision can, however, be appealed to the fiscal court. Criteria for fiscal court deliberations are included within the ordinance.

Procedures and activities mandated by the DGS have been placed under strict time limits within the ordinance. Feeling it only fair to limit the timing of its own activities while limiting the activities of developers, the planning com-

mission committed itself to making decisions in the shortest amount of time. Depending on how quickly the developer responds, proposals can work their way through the entire process in as little as 6 weeks.

What Others Think

Implementation of the DGS has gone surprisingly well, given that the ordinance is the first of its kind. The biggest problem so far has been making the public aware of the existence of regulations.

A second problem has been to erase "zoning" ideas from the public's mind. This, it must be admitted, was completely unanticipated. Hardin County never had a zoning ordinance; county residents had never been subjected to classifications or zoning issues. In informal compatibility meetings, however, discussions have periodically centered on zoning-related topics. This is now being handled through a better participant-education program and appears to be producing better results.

The Development Guidance System has gained considerable national attention. In July 1984, the commission received an achievement award from the National Association of Counties for "improving the efficient delivery of county government services." In October 1984, Kentucky's chapter of the American Planning Association cited the planning commission for an "outstanding planning project-program," and the American Farmland Trust gave the Development Guidance System one of its five achievement awards for noteworthy "public policy development" aimed at farmland protection. Agriculture Secretary John Block presented this citation in Washington during an awards ceremony in December 1984.

Last spring, the commission and its DGS received their highest honor—one of only three national planning awards presented in Montreal by the American Planning Association for "outstanding planning." The Louisville *Courier-Journal* called the DGS "an encouraging step forward in an area badly in need of imaginative approaches. . . . The result should be watched with keen interest wherever urban problems are impinging on the countryside." RDP

E. Evan Brown, H. Max Miller,
M. Julian Duttera, and Gerald R. Hummel

New Physicians Setting Up A Rural Practice: It Isn't Easy

New physicians encounter more problems in setting up a rural practice than an urban one, according to a recent study of Georgia physicians. The problems for rural doctors range from inadequate hospital facilities to a sense of isolation from colleagues to unmet needs of other family members. Some of the problems can be mitigated by physician groups and community groups working together.

New physicians setting up practice in small towns and rural areas encountered many more problems than new physicians in large cities. Seventy-two percent of the rural physicians reported their problems to be at least as great as those in their internship year.

Physicians in communities of less than 10,000 cited an average of 5.5 problem areas during the first 2 years of practice. This number was more than three times higher than the average number of problem areas reported by the physicians in communities of over 100,000.

Rural doctors listed seven problem areas more than three times as often as urban physicians did: (1) Adequacy of hospital facilities; (2) availability of professional colleagues and associates; (3) opportunities for professional education; (4) isolation; (5) emergency room coverage; (6) personalities and practice styles of physicians in the local community; and (7) art and cultural activities. Other problem areas are shown in table 1.

Evan Brown is professor of agricultural economics, University of Georgia; Max Miller is associate professor of agricultural economics and rural sociology, University of Georgia; Julian Duttera, M.D., is chairman of the Medical Association of Georgia, Committee on Access to Health Care; and Gerald Hummel is director of the Southeastern Institute for Community Health Inc., La Grange, Georgia.

What Can Be Done?

Two types of problems dominate among physicians just entering practice—problems related to the community and problems independent of it. Those related to the community include:

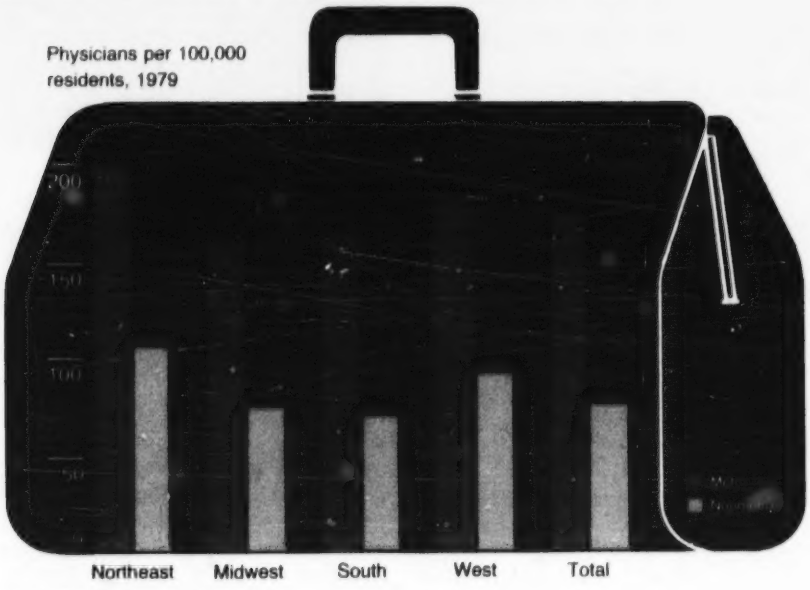
- inadequate hospital facilities, isolation, and distance to the nearest hospital,
- unmet family needs, and
- general problems.

Inadequate hospital facilities and need and demand for services can perhaps be dealt with over time, but solutions should not be expected immediately. The problem of isolation expressed by 36 percent of the rural doctors probably refers to professional isolation, not geographic isolation. Two out of five rural physicians cited the availability of professional colleagues and medical associates as a problem. There are no active programs in Georgia (nor in many other States) to remedy the sense of isolation from professional colleagues. A partial solution may be for local medical associations to hold regular meetings with other nearby medical associations. Another method to relieve the sense of isolation might be to have regularly scheduled weekend retreats for formal and informal meetings among physicians from a group of communities.

Family-related community problems include meeting educational needs of physicians' children, needs of their spouses, and child care needs. Physicians should consider these factors when investigating where to locate their practice. A physician who knows what to expect in a community will probably be less likely to leave it. A community task force to deal with transitional problems of new physicians and their families may be able to help them adjust to their new practice.

New doctors setting up rural practice face special problems. Anticipating them with the help of the local medical association, small communities will be better able to attract and retain local doctors.
USDA photo

Figure 1
Doctors in Midwest and South spread the thinnest



Active nonfederal physicians in patient care
From *Physicians in Nonmetro Areas During the Seventies*, by Mary Ahearn and Michelle Fryer

General problems related to art, culture, education, and religion are also community related. Nearly a third of rural physicians considered the lack of art and cultural activities to be a problem. This is not surprising unless the community is located near a large city or large university. Efforts to bring such activities into small communities generally receive little community support. A significant number of rural physicians said church and religious activities were a problem. Protestant denominations and Pentecostal evangelical sects often dominate in rural areas (especially in the South), making it difficult for physicians of other faiths to find places of worship and to engage in other church-related activities.

Problems not related to the community include opportunities for professional

Table 1—Problems for new physicians, Georgia, 1980

Types of problems	Percentage of doctors having problems in areas with: Under 10,000 population	Over 100,000 population
Rural Problems Worse Than Urban:	*Percent*	
Adequacy of hospital facilities	**42**	5
Availability of professional colleagues and medical associates	**40**	5
Opportunities for professional education	**36**	9
Isolation	**36**	10
Emergency room coverage	**35**	7
Personalities and practice styles of physicians in local community	**33**	14
Adequate time off	32	26
Art and cultural activities	**31**	10
Size of community	**24**	4
Availability of consultants for clinical problems	**24**	5
Special needs of spouse	22	19
Excessive need and demand for services	**22**	6
Compatibility with hospital staff	**19**	3
Willingness of professional colleagues to assist in transition to practice	15	9
Education system	**14**	6
Acceptability of location to spouse	14	10
Church and religious activities	**12**	4
Special needs of children	**12**	5
Progressiveness of local hospital administration	**12**	5
Distance to hospital	12	10
Employment opportunities for spouse	8	5
Educational opportunities for spouse	**8**	2
Availability of child care facilities	**8**	2
Bylaws limitations	5	4
Urban Problems Worse Than Rural:		
Limited need and demand for services	11	**15**
Income potential	7	**10**
Opportunity to influence community affairs	6	**8**
Cooperation of local lending institutions	5	**8**
Climate	3	**4**
Credentialing limitations	0	**5**
Rural and Urban Problems About the Same:		
Cooperation of available consultants for clinical problems	5	5
Terrain	0	1

Numbers in boldface indicate that the difference between urban and rural doctors is statistically significant.

USDA photo

education, emergency room coverage, adequate time off, and personality and practice styles within the local community. Hospital administrators and local medical societies can help in these problem areas. Other doctors can help too.

An already established physician is the single best resource for a physician making the transition from training to practice. This individual plays an important and unrecognized role in assisting the new physician. Perhaps the obvious importance of the role of an established physician in this setting should be recognized. Furthermore, a committee of the county medical society, particularly in rural areas, may be able to develop guidelines to help settle new physicians, thereby easing some of the problems identified by this study.

Who Can Help?

New physicians in rural practices face a series of problems. Some of them must be dealt with by the physician and other

members of the medical community; and some of them can be dealt with by the community and its leaders.

Problem areas where the physician cannot expect much change must be scrutinized. When new doctors come to communities unprepared for what to expect and then find basic incompatibilities, their only alternative is to leave the community. The help of a physician colleague to aid in the transition and to act as counselor or advisor seems to be a tradition within the medical community, and one that has gone without much formal recognition. Physicians surveyed in our study reported that these informal advisors were more than four times as important as any other source in helping them to adjust to a new practice.

A community task force to deal with nonpractice and nonmedical issues might also help new physicians. Rapidly integrating the physician into a community, a network of friends, community organizations, and church activities would seem to address some of the most pressing problems. More physicians, and more communities, will probably have to start coping with these issues, since the availability of physicians within Georgia and across the United States is increasing phenomenally. Medical school enrollment has almost doubled within the last decade. Georgia now has training programs across the State instead of just in the major metropolitan areas. There are now family practice residency programs in Rome, Columbus, Savannah, and Macon; whereas before they were offered only in Atlanta and Augusta. In addition, National Health Service Corps scholarships, which help large numbers of physicians finance their schooling, require them to practice for a time in rural areas and other unserved areas.

The issue for rural America in the mid-1980's will not be a national shortage of physicians, but recruiting and retaining their share. The problems identified here should help to show where the rural physicians and rural communities can work together for mutual benefit. RDP

For Additional Reading . . .

R. C. Parker, Jr., and A. A. Lorenson. "The Tides of Rural Physicians: The Ebb and Flow, or Why Physicians Move Out of and Into Small Communities." *Medical Care*, 1978, No. 16, pp. 152–166.

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J. G. Looney, R. K. Harding, M. J. Blotcky, et al. "Psychiatrists' Transition from Training to Career: Stress and Mastery." *American Journal of Psychiatry*, 1980, No. 137, pp. 32–36.

D. L. Madison. *Starting Out in Rural Practice*. Chapel Hill: The University of North Carolina, 1980.

C. C. Nadelson, M. T. Notman, and P. Lowenstain. "The Practice Patterns, Life Styles, and Stress of Women and Men Entering Medicine: A Follow-Up Study of Harvard Medical School Graduates from 1967 to 1977." *Journal of the American Medical Association*, 1979, No. 343, pp. 400–406.

About the Study

This study was based on a sample of physicians in Georgia chosen in 1980 on the basis of year of graduation from medical school. An underlying assumption was that all graduates had completed 3 to 5 years of residency and 2 years of military service before entering practice. Thus, all practicing physicians graduating between 1967 and 1974 were included in the sample frame.

A list of all practicing care physicians was obtained from Composite State Board of Medical Examiners. Physicians listed themselves in the specialties of family practice, internal medicine, pediatrics, general surgery, and obstetrics and gynecology. The entire population of 828 physicians was surveyed by mail questionnaire. Three separate mailings were used to assure an adequate response.

We compared the responses of the 78 physicians in communities under 10,000 with those of the 187 practicing in communities of over 100,000.

The primary care physicians participating in the study were in family practice, internal medicine, pediatrics, general surgery, and obstetrics and gynecology. Fifty-eight percent of the 828 primary care physicians contacted responded to the survey. From those 481, data were usable from 466. Of this number, 78 were practicing in communities of less than 10,000 people and 187 in communities over 100,000.

The survey was designed to contain questions on substantive content areas and was divided into four sections. The first section questioned background characteristics of the physician, including sex, primary and secondary specialty, community size, medical school and year of graduation, year of starting practice, and practice arrangement. A second section questioned the stressfulness of the transition from the training program to practice. A third section questioned the specific problem areas producing difficulty during the first 2 years of practice in the practice setting. Specific concerns included geographic and community facilities, and business problems. For analytical purposes, physicians were asked to indicate whether their practice was in partnership or group arrangements or as solo physicians. The fourth and final section invited general comments, and asked for the identification of other problem areas not specifically mentioned.

Elizabeth S. Morrissey

What Makes Poverty So Intractable in High-Poverty Nonmetro Counties?

Rural counties with high poverty rates are substantially different from counties with low poverty rates. For example, high-poverty counties are more likely to have relatively large dependent populations such as female-headed families, disabled persons, and persons not in the work force. In addition, their populations are less educated and more likely to have low-wage jobs. Such characteristics suggest that government assistance in the form of income transfers could play a big role in alleviating poverty in these areas.

Although the national poverty rate dropped dramatically during the late 1960's and remained fairly stable in the 1970's, some rural areas still have severe poverty. By looking at the nonmetro counties with the highest and lowest rates of poverty we hope to find differences among them that will help in developing antipoverty policies.

Eighty-one of the high-poverty counties were in the Mississippi Delta, the Appalachian Mountains, and the Black Belt of Alabama (fig. 1). The remainder were located in the north-central region near Indian reservations and in the Rio Grande River Valley in Texas and New Mexico. More than half of the low-poverty counties were in the Great Lakes (adjacent to SMSA's) and Great Plains regions. The Rocky Mountain, New England, and northeastern metro belt areas accounted for the rest of the low-poverty counties.

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During the 1970's, more high-poverty counties failed to gain population than low-poverty counties (43 vs 6). Most of the high-poverty counties that lost population were in the South—specifically the Rio Grande Valley in Texas, the Mississippi Delta, and the Alabama Black Belt. Forty-five of the high-poverty counties and 60 low-poverty counties grew moderately (up to 23 percent population growth). Only 12 high-poverty counties grew rapidly (more than 23 percent) compared with 34 low-poverty counties. Six rapid-growth high-poverty counties were in Kentucky; the remainder were in the Southwest and South Dakota.

High-poverty counties also had a higher percentage of their population located in rural areas (67.7 percent) than did the low-poverty group (51.9), smaller total population (15,000 vs 38,000), and a much lower population density (16.2 persons per square mile vs 32.1). Such small scattered populations may make service development and delivery difficult.

Poverty-Prone Groups

The two groups of counties had markedly different proportions of most of the poverty-prone populations. The high-poverty counties contained much larger proportions of nonwhites, female-headed families, and disabled than did the low-poverty counties.

Not only did the high-poverty counties have a generally higher proportion of most poverty-prone populations, but the poverty rates for all of the poverty-prone populations were higher than average (fig. 2).

Residents of high-poverty counties also had less schooling. Only 41 percent of persons over the age of 25 in the high-poverty counties had completed high school, compared with 69 percent in the low-poverty counties.

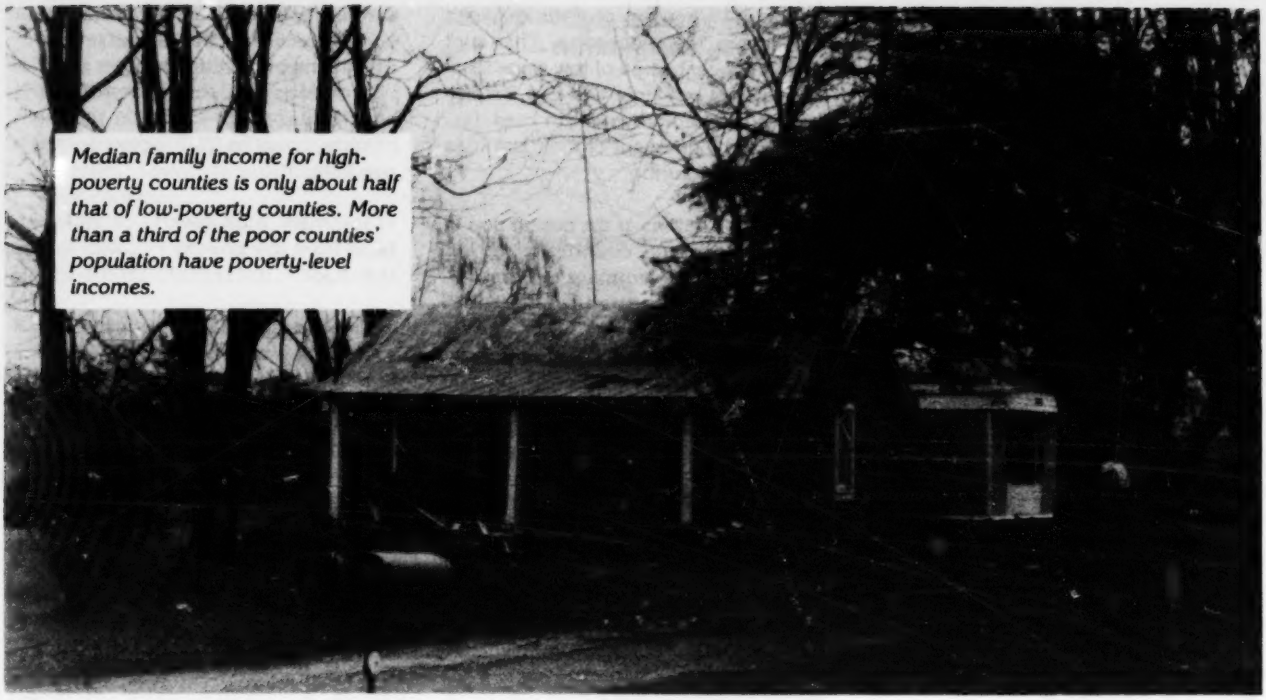
Income and Employment

As expected, both per capita personal income and average median family income were lower in the high-poverty than in the low-poverty counties (table 1). Per capita personal income for the high-poverty counties ($5,085) was $3,700 less than for the low-poverty counties ($8,785). The average median family income for the high-poverty counties ($10,707) was only about half that of the low-poverty counties ($21,370).

The distribution of income underlies the high incidence of poverty in high-poverty counties: nearly 36 percent of families in high-poverty counties had income of less than $7,500 versus only 8 percent of families in low-poverty counties. Furthermore, only 15 percent of families in high-poverty counties had income over $25,000, compared with 43 percent of families in low-poverty counties.

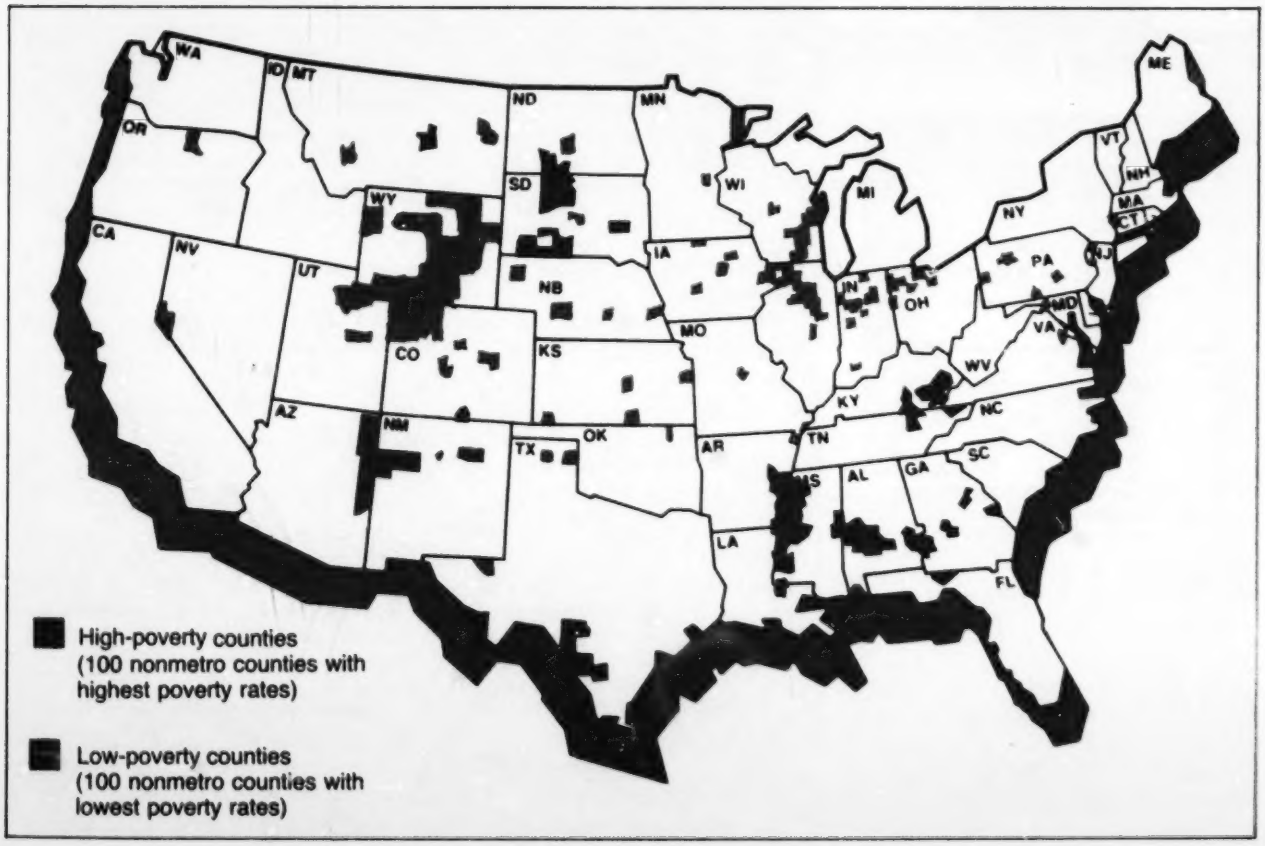
The major source of personal income for both groups of counties was earnings, mostly from wages and salaries. However, high-poverty counties had a larger share of self-employment (19.9 percent of earnings) than low-poverty counties (12.1 percent of earnings). Government and farming also were much more important as sources of earnings in high-poverty counties, while manufacturing was only about half as important in high-poverty counties as in low-poverty counties.

A smaller share of people 16 years and older was employed in high-poverty counties (31 percent vs 45 percent). The larger average family size in high-poverty counties (3.2 persons vs 2.9 in low-poverty families) implies more dependents per worker. The high-poverty counties had more employment in service and extractive industries (largely farming) than the low-poverty counties, and almost the same proportion of employment in trade.



Median family income for high-poverty counties is only about half that of low-poverty counties. More than a third of the poor counties' population have poverty-level incomes.

Photo by J. Norman Reid



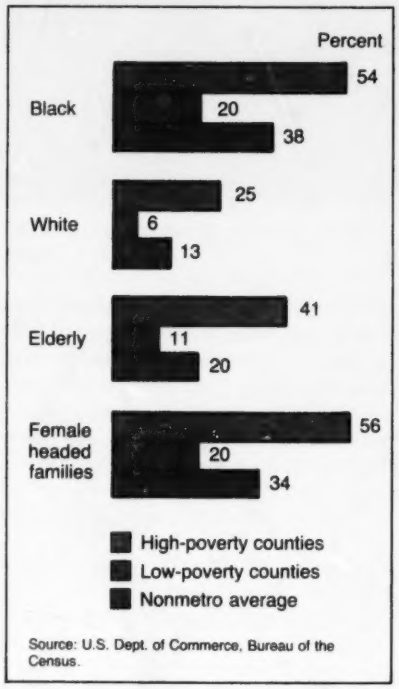
There were major differences in manufacturing employment in the two types of counties. Employment in manufacturing in high-poverty counties was likely to be in nondurable goods, a sector that generally pays lower wages than others. Employment in manufacturing in low-poverty counties, by contrast, was likely to be in durable goods, a sector that generally pays higher wages than others. Thus, the high-poverty counties had nearly 20 percent of their employment in manufacturing but only 17 percent of their earnings came from manufacturing. This suggests a concentration of low-wage jobs. The low-poverty counties had 27 percent of their employment in manufacturing and 32 percent of their earnings from manufacturing.

Larger proportions of the population in the high-poverty counties received benefits from government welfare programs that are targeted to those with limited means, reflecting the higher proportion of dependent populations in the high-poverty counties (fig. 3). The proportion of elderly receiving Social Security was about the same in the high- and low-poverty counties; but the proportion receiving Supplemental Security Income, indicating a larger population of poor aged, blind, and disabled people, was much higher in the high-poverty counties (6.3 percent vs 0.8 percent).

In summary, high-poverty counties differed from low-poverty counties in that they had:

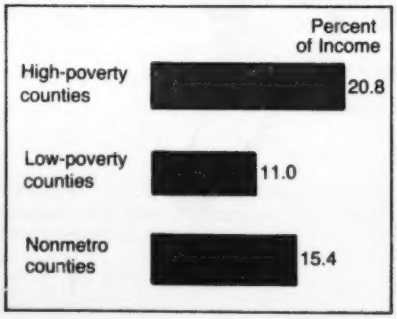
- a sparser population;
- a larger proportion of poor;
- a larger proportion of most poverty-prone populations;

Figure 2
Poverty rates for selected groups



Source: U.S. Dept. of Commerce, Bureau of the Census.

Figure 3
Government assistance is a greater part of personal income in poor counties



Data and Methodology

The nonmetro counties from which the study counties were drawn are those counties not in standard metropolitan statistical areas (SMSA's), as defined by the Office of Management and Budget (OMB) in 1974.*

The poverty thresholds used are those established by the Bureau of the Census, U.S. Department of Commerce, and vary by size of family and other factors. For example, for a family of four, the 1980 poverty threshold was an income of $8,414 or less.

The income data are from the Bureau of Economic Analysis, U.S. Department of Commerce. The Social Security (OASDI) and Supplemental Security Income (SSI) data are from the Social Security Administration. The Aid to Families with Dependent Children (AFDC) data are from the Office of Family Assistance, Department of Health and Human Services. The food stamp data are from the Food and Nutrition Service, U.S. Department of Agriculture. The other data are from the 1980 U.S. Census of Population and the 1978 Census of Agriculture.

This study examines two groups of nonmetropolitan counties that differ markedly in their incidence of poverty—high-poverty and low-poverty counties. A county's poverty rate is measured by the proportion of its population with income below the poverty level.

To identify the high- and low-poverty counties, the 2,443 nonmetro counties were ranked according to their 1980 poverty rate and 200 were chosen for analysis. High-poverty counties are defined as the 100 counties with the highest poverty rates, and low-poverty counties were defined as the 100 counties with the lowest poverty rates.

The poverty rate was 37.6 percent for high-poverty counties, more than double the rate for all nonmetro areas (15.2 percent) and almost five times greater than the poverty rate of the low-poverty counties (6.6 percent).

*The Office of Management and Budget recently revised the definition of metropolitan areas. The new definition, called a Metropolitan Statistical Area (MSA), eliminates the minimum size requirement for the central city and the contiguous areas. The SMSA, rather than the newer MSA, definition was used in this study so that a consistent definition of nonmetropolitan could be used for comparison of change between 1969 and 1979.

- higher poverty rates among poverty-prone populations;
- a less educated population;
- a greater reliance on transfer payments;
- higher proportions of earnings from farming, lower proportions from manufacturing.

Farm Characteristics

Farm structure was significantly different between the two groups of counties. A closer look at the farms reveals pockets of great wealth in some of the high-poverty counties.

The average farm size of the high-poverty counties was over 1,000 acres—almost twice as large as farms in the low-poverty counties (568 acres) and more than twice the nonmetro average (507 acres). But high-poverty counties also had a slightly higher percentage of farms under 50 acres than did low-poverty counties (23 percent vs 18 percent). The high-poverty counties had a

Table 1—High-poverty counties had less manufacturing, more farming and government earnings in 1980

Characteristic	High-poverty counties	Low-poverty counties	All nonmetro counties
		Dollars	
Per capita personal income	5,085	8,785	7,206
Median family income	10,707	21,370	15,786
		Percent of total earnings	
Earnings by type:[1]			
Wages and salaries	80.1	87.9	84.9
Self-employment income	19.9	12.1	15.1
Earnings by industry:[1]			
Farming	15.5	6.1	8.7
Mining	5.7	6.1	4.4
Manufacturing	16.6	31.9	26.4
Service	12.1	11.9	12.1
Government	18.6	13.2	16.9
Wholesale and retail trade	4.8	4.6	4.4
Finance, insurance, real estate	2.7	3.1	3.3
Transportation, communication, and public utilities	6.3	6.6	6.5
Other industries	17.7	16.5	17.3

[1]Earnings are reported by place of employment.
Source: Median family income—U.S. Department of Commerce, Bureau of the Census; all other data—U.S. Department of Commerce, Bureau of Economic Analysis.

smaller percentage of 50- to 499-acre farms (table 2).

Even though the overall value of sales per farm was higher in the low-poverty counties, the high-poverty counties also had many farms with large sales volumes. For example, in six high-poverty counties in the Mississippi Delta, more than 40 percent of the farms had annual sales of $100,000 or more. By contrast, no low-poverty county had more than 32 percent of farms with more than $100,000 in sales.

Furthermore, average farm sales exceeded $100,000 in 17 high-poverty counties, compared with only 5 low-poverty counties. Two high-poverty counties with poverty rates in excess of 40 percent had *average* farm sales of over $200,000. The high-poverty counties with the highest farm sales all had relatively high poverty rates—over 35 percent—and a fairly large proportion of minorities. Most of these counties were in Mississippi or Texas.

The presence of large farms in several high-poverty counties suggests that distribution of income and wealth among the population is highly skewed.

The counties differed little with respect to farm ownership, farm legal organization, principal occupation of farm operator, or farmland value. However, farms in high-poverty counties grew more cash grain and less vegetable, nut, and specialty crops.

Policy Implications

Rural areas with high poverty rates may have considerable difficulty improving their economic status by means of improvements in employment and the general economy because many of the poor in these areas are elderly, disabled, or otherwise not in the work force. Progress in alleviating poverty in these areas will depend on changes made in government assistance in the form of income transfers. However, some of the poor in these areas could benefit from economic development if programs were established to train them for the higher paying jobs that development might create. RDP

Table 2—High-poverty counties have large proportion of very large farms

Item	High-poverty counties	Low-poverty counties	All nonmetro counties
		Number	
Total farms	47,744	83,258	1,717,485
		Acres	
Average farm size	1,072	568	507
		Dollars	
Average annual sales per farm	48,320	53,930	47,020
		Percent of all farms	
Acres per farm:			
Under 50[1]	22.7	18.1	20.3
50–179	30.1	34.4	33.2
180–499	20.0	31.4	27.6
500–999	11.0	9.3	10.6
1,000 and over	16.2	6.8	8.3
Annual farm sales:[1]			
Less than $40,000	77.0	62.3	73.0
$40,000–99,999	11.3	24.4	17.0
$100,000 and over	11.7	13.3	10.0

[1]Data unavailable for three low-poverty counties.
Source: U.S. Department of Commerce, Bureau of the Census, *1978 Census of Agriculture.*

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Woong K. Cho

Getting a Job in Poor Counties of the Rural South

A lack of jobs makes finding work extremely difficult according to more than half of those interviewed in low-income counties in the rural South. More than a third said that not knowing the right people and not having enough training or education also were serious obstacles. These survey responses reveal why many residents of low-income rural areas in the South feel they did not fully share in the 1970's rural revival.

Despite considerable socioeconomic progress in rural America, many families in economically depressed areas of the rural South are still impoverished. One of the main reasons is that the breadwinners cannot find full-time work. Being gainfully employed is crucial if these families are to lift themselves above the poverty threshold. However, finding a job in these communities is perceived by many to be difficult for a variety of reasons. This article reports on what rural households perceive to be their problems in obtaining jobs. This article is part of a major regional research project to investigate social, behavioral, and economic characteristics of individuals and families related to poverty in the rural South.

Rural economic development has been more rapid in the South than in other regions over the past few decades. During the 1960's and 1970's, the South accounted for more than half of all new manufacturing jobs in the Nation and led in the creation of new nonmanufacturing jobs as well. However, pockets of poverty still remain in many areas of the rural South. The main reason is that nonagricultural jobs in these areas have not increased enough to absorb the large number of low-skilled workers displaced from agriculture.

Woong K. Cho is associate professor, Department of Social Sciences, Alcorn State University, Lorman, Mississippi and project leader of Rural Labor Market Research.

Low-Income Areas and the Sample

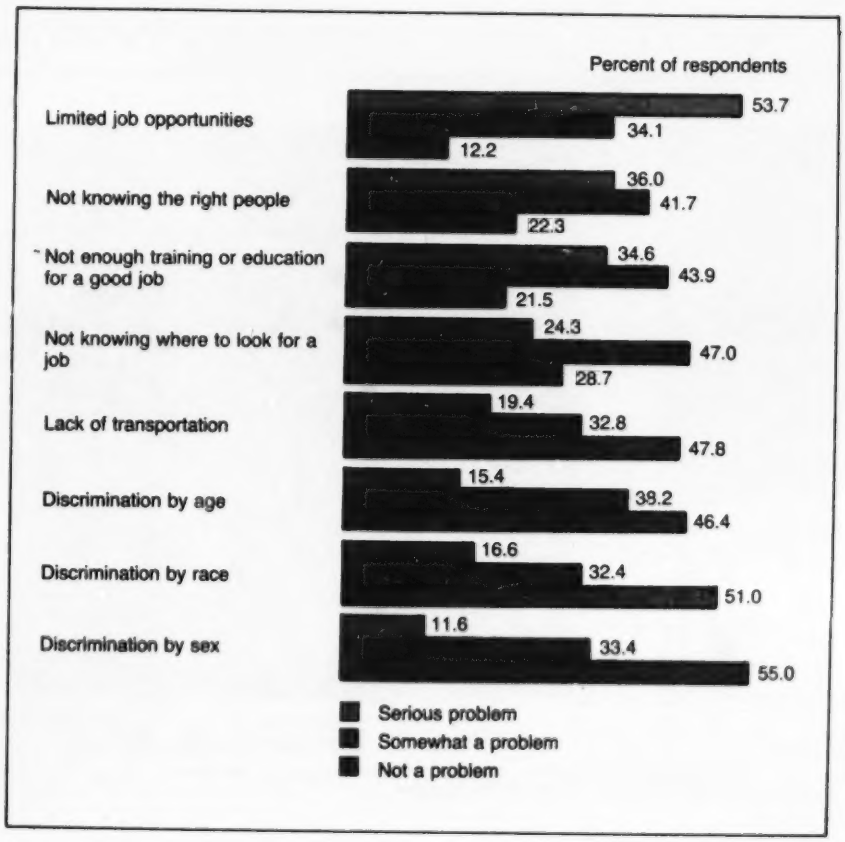
Low-income rural areas described in this article represent about 35 percent of the rural counties with the lowest per capita incomes. The counties are located in 10 Southern States: Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. The data come from a 1981 survey of 2,554 household heads selected from three racially mixed counties from each of the 10 States. Of the household heads sampled, 35 percent were female, 37 percent black, 28 percent elderly (65 years and over), 24 percent poorly educated (7 years and less of schooling), 17 percent in farming, and 43 percent poor.

Major Employment Problems

Many residents of the low-income rural areas of the South, though able and willing to work, cannot find jobs or are underemployed. They attribute their problems to several factors.

Nearly 60 percent of those surveyed felt the most serious factor hindering them from securing gainful employment in their communities was "limited job opportunities." The second most frequently cited problem was "not knowing the right people," closely followed by "not having enough training or education."

Figure 1
How serious is the problem?



Blacks, females, and poor people also considered "not knowing where to look for a job" to be a serious problem. Many blacks also thought racial discrimination seriously limited their ability to obtain a job. Problems such as "lack of transportation" and "discrimination by age, race, and sex" were perceived to be serious problems by only about a tenth of the white respondents.

"Not Enough Jobs"

A shortage of jobs was perceived as a serious employment problem in their community by every socioeconomic subgroup examined here. More than half of each subgroup felt this way. Only about one of every eight respondents in each subgroup said that a lack of jobs was not a problem. Respondents rated a shortage of jobs as the single most important factor in preventing them from finding work.

Photo by J. Norman Reid

Table 1—Seriousness of employment problems, as perceived by various socioeconomic subgroups

Socioeconomic subgroups	Respondents	Limited job opportunities	Knowing the right people	Not enough training or education	Knowing where to look for a good job
	Number	*Percent*			
Sex:					
Male	1,647				
Female	867				
Race:					
Black	945				
White	1,550				
Age:					
18–39	816				
40–59	796				
60 and older	870				
Education:					
0–7 years	613				
8–11 years	836				
12 or more years	1,054				
Occupation:					
White collar	703				
Blue collar	828				
Farmer	425				
Poverty status:					
Nonpoor	1,410				
Poor	1,035				

Serious problem | Somewhat a problem | Not a problem

Percents rounded off to the nearest whole number.

"Not Knowing the Right People"

"Not knowing the right people" was thought to be the second most serious problem in securing employment in low-income areas of the rural South. This suggests that many rural people believe that personal ties to family members, relatives, friends, or local influentials are instrumental in getting hired. Approximately a third of every subgroup perceived this as a serious problem, while more than 40 percent of all the subgroups felt it was somewhat of a problem. However, blacks, the poor, the less educated, and female heads of households felt it to be more of a problem than others. Blacks and less educated people especially appear to suffer from a social isolation which they feel bars them from obtaining decent jobs in their communities.

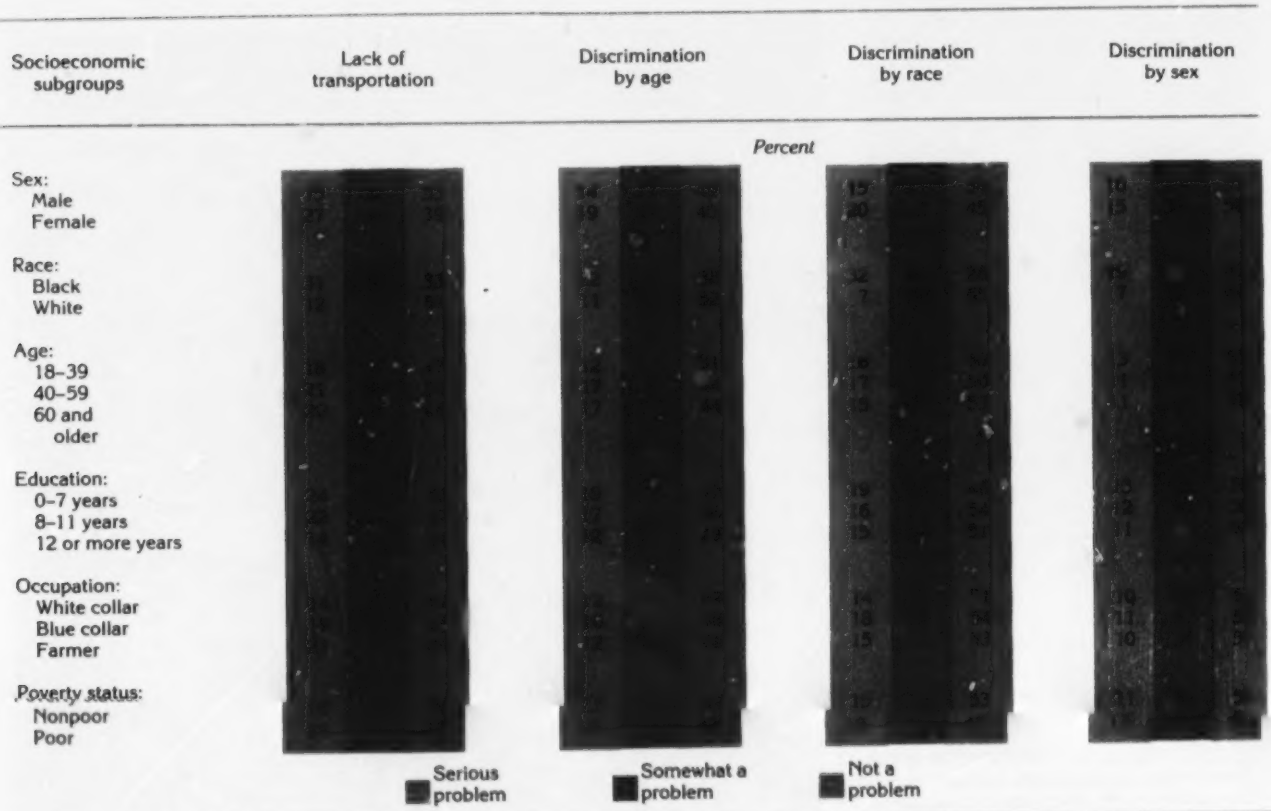
"Not Enough Training or Education"

Many rural residents believed "not enough training or education" kept them from finding gainful employment. Even though the Federal Government has undertaken a variety of employment and training programs since 1960, these programs seem to have been inadequate or unavailable to many who now seek jobs in low-income rural areas of the South. More than 30 percent of every subgroup viewed lack of training or education as a serious matter, while more than 40 percent thought it somewhat of a problem. The problem was most acutely felt by blacks and, to a lesser extent, by the poor, the less educated, the young, female heads of households, and blue-collar workers.

The Special Problems of Certain Subgroups

The survey identified three major employment problems frequently encountered by rural residents: job shortages, lack of the "right" contacts or social isolation, and not enough training or education.

However, for blacks, females, and poor people, a lack of transportation and not knowing where to look for work also are serious problems. And finally, many blacks believe that racial discrimination prevents them from getting jobs. Therefore, rural employment policy, in addition to dealing with the three major perceived employment problems, needs to address in a more effective manner the employment problems of the particularly disadvantaged groups in the low-income rural areas of the South. RDP



Carol B. Meeks

Should the Rural Elderly Opt For the New Equity Conversion Plans?

Elderly homeowners should look before they leap into one of the new plans to tap the idle value of their home equity and turn it into cash. While such an equity conversion plan may be just what they've been looking for, the plans can be difficult to evaluate. Some plans will increase their income taxes or make them ineligible for public assistance. Before deciding, it would pay to look into other sources of financial aid, such as a loan secured by a traditional mortgage or a low-interest loan from a State government.

Elderly rural couples may be able to sell their homes yet continue to live in them for the rest of their lives. With the cash from the sale, they can improve the way they live or buy some big ticket items they've always wanted.

Sounds like a dream, doesn't it? That's the idea behind the new home equity conversion plans. The theory is appealing. But these plans also have a serious drawback—they can be tough to evaluate and compare without professional help.

Most homeowners over 65, after making a lifetime of payments, own their homes free and clear—about 84 percent of them in rural areas and 67 percent of them in urban areas. The equity in their homes represents most of their life's savings, aside from the value of their retirement benefits. They may want to start spending some of the equity they've built up in their house. They may need to offset a cash flow squeeze brought on by rising property taxes, maintenance expenses, utility costs, or the multitude of other homeownership costs. Or they may just want to enjoy a higher standard of living. That's where the new equity conversion plans come in.

The potential for home equity conversion is vast, since 13.1 million homes are owned by Americans 65 years of age and older with an estimated net equity of $700 billion. In nonmetro areas, there are nearly 5½ million of such older homeowners.

The Issue in a Nutshell

The new equity conversion plans are better than older methods because they are more convenient and can be more precisely tailored to the homeowners' needs. For example, with one of the new plans, homeowners can borrow to buy an annuity, using their house as collateral for the loan. Doing this the conventional way involves three separate transactions. First, homeowners have to sell their homes. Second, they have to get the new owner to let them rent the house. And, finally they have to purchase an annuity from an insurance company with the proceeds from the sale of the house.

The new plans clearly represent an improvement over the old ways of doing business. But there may be a high price to pay for the advantages of the new plans, and some risks are involved. Homeowners must make sure that the price is reasonable, that the risks are acceptable, and that they are dealing with a reputable company. To do this, most of them will probably need professional help from a financial advisor such as an accountant, financial planner, or a real estate lawyer.

Their home is their greatest asset for most people. After investigating the alternatives, some rural elderly may want to tap their home's value with an equity conversion plan.

Photo by J. Norman Reid

Carol Meeks is an associate professor in the Department of Housing, Home Management and Consumer Economics at the University of Georgia. She was Housing Section Head in ERS's Economic Development Division.

Some Common Plans

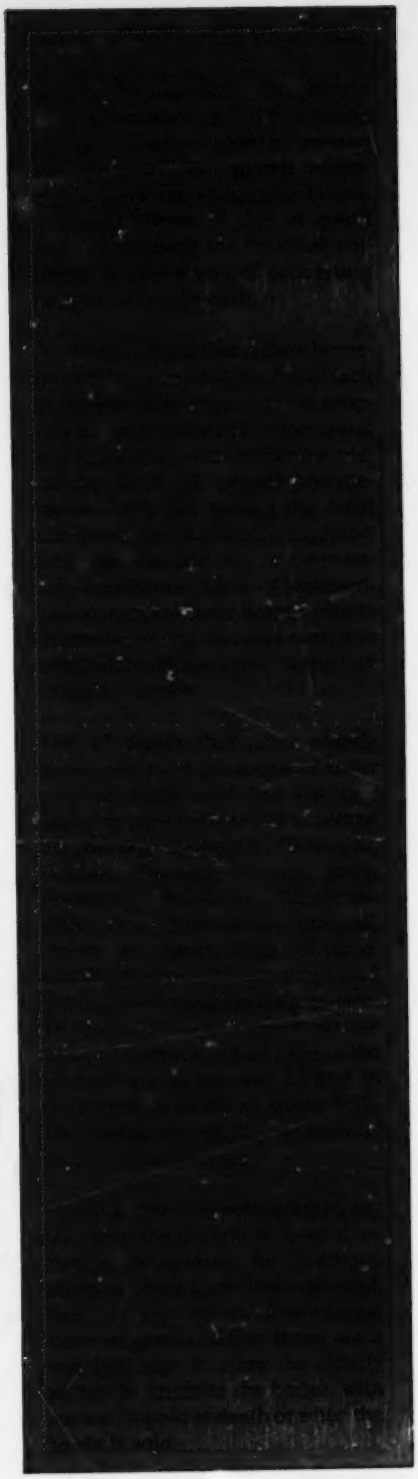
Home equity conversion plans expand the homeowners' options for using the savings locked up in their homes. The two most common plans are reverse mortgage plans and sale/leaseback plans.

The reverse mortage plan is a rising-debt loan—the opposite of a conventional mortgage. The lender pays the homeowner, instead of the homeowner paying the lender; the homeowner is required to repay cash received plus accrued interest at some future date. When the loan comes due, the owner may convert the accrued debt into a regular mortgage, sell the property to pay the debt, or take out a new reverse mortgage if the house's value has appreciated enough. If the owner dies, the estate may become responsible for the mortgage or the lender may get the house.

Usually the loan amount of a reverse mortgage is less than the full market value of the house since the house is the major guarantee of repayment and it may depreciate. The amount of cash received depends on the value of the home, the mortgage interest rate, and the life of the mortgage. Homeowners may receive reverse mortgage payments as a lump sum or as monthly payments, or as a combination of the two. Interest costs on a monthly payment plan are low in the beginning since the outstanding balance is low. The term of the monthly payments can be short (5 years), long (20 years), or variable (for as long as the owner lives in the house, for as long as the owner lives, or for the actuarial life of the owner). In any case, the mortgage must be repaid at the end of the term specified or the lender gets the house.

The reverse mortgage may combine the mortgage with the purchase of an annuity. An annuity guarantees the purchaser an income based on the amount of the annuity purchased, the interest

Photo by J. Norman Reid



Using some of the home equity conversion plans may make one subject to higher income taxes and ineligible for some types of government assistance.

paid on the purchase amount, and the life expectancy of the purchaser. Thus, the borrower receives cash from the annuity and pays the interest on the mortgage. Repayment of the principal is deferred until death, sale of the house, or some other specified date. The net amount of cash received will vary with the mortgage interest rate, the annuity interest rate, and the age and sex of the borrower.

Other mortgage plans are also available, such as shared appreciation or graduated payment reverse annuity mortgages, which vary interest rates, terms, and payment structure.

Sale/leaseback plans allow the owner to sell the house but retain occupancy rights. The owner becomes a renter in the house he or she used to own. A variant of this plan, sometimes called a split-equity arrangement, splits the ownership rights between the current owner and the new buyer.

Evaluating the Plans

Home equity conversion plans involve benefits, costs, and risks for the homeowners. The benefits usually are a stream of monthly cash payments over a period of years. Costs may include interest payments, mortgage fees, lost housing appreciation, sales costs, lost welfare benefits, and higher income taxes. Some of the risks are that either the lender or homeowner will default on the payments, a high rate of inflation may raise interest rates (and the homeowner's monthly payments) and reduce the buying power of the payments the homeowner receives. In addition, the home seller could deplete the equity in the house during his or her lifetime.

Because it is extremely difficult to evaluate the benefits, costs, and risks involved in home equity conversion plans and to compare them with the more conventional ways of converting home equity into cash, most people should not enter into these plans without expert financial and legal counseling.

The following examples highlight the need for expert advice.

- An increase in the appreciation of a house with an initial value of $100,000, from 2 percent a year to 5 percent a year, could affect the final cost of a plan by $15,000 after 5 years.

- A difference in the mortgage interest rate of 2.5 percentage points (10.5 percent vs 13 percent) would change interest costs by $6,206 after 5 years and $14,389 over the full term of a 15-year, $50,000 mortgage.

- Borrowing $50,000 of the equity in a house versus $75,000 would drop monthly loan payments by $316 on a 15-year 13 percent mortgage.

- Investing $50,000 from the proceeds of the mortgage or house sale in a money market fund paying 7 percent would earn about $17,500 in 5 years—much less than the $25,000 one could have earned buying a package of certificates of deposit of varying maturities with an average yield of 10 percent.

As you can see, cashing in the equity in one's home is complicated and poses risks. There is no one "best" arrangement; it depends on individual circumstances and the terms of the plan. Experts can help a homeowner pick the right plan.

To do their work, financial counselors will need detailed information on some or all of the following aspects of the plan. All of these items can affect the homeowner's cash flow in drawing down on the equity accumulated in the house.

- Mortgage terms; for example, can the interest rate change?
- Annuity factors.
- Sales terms, especially the payout period and how that compares with the seller's life expectancy.
- Lease factors; for example, who is responsible for repairs? can the lessor be evicted? can the rent increase? if so, how much?

A financial counselor will also need to be well versed in income tax laws, the workings of public benefit programs, and actuarial science to give sound advice. The seller's income tax liability may go up, for example, under a sale/leaseback arrangement if the IRS determines that the rent or sale price is below market value.

Likewise with public benefit programs. The monthly payments received by the elderly under the terms of the contract may disqualify them from receiving supplemental social security payments, medicaid, or food stamps or may reduce their level of benefits under those and similar programs.

Wrap-up

The rural elderly may find it to their advantage to use one of the new home equity conversion plans as a means of consuming the equity in their homes. But they may find these plans difficult to evaluate or compare with the more conventional ways of converting their houses into cash, such as using their homes as collateral for establishing a line of credit at their local bank. To tell whether the benefits of a new equity conversion plan outweigh the costs and risks, they may need to get help from an impartial financial planner or lawyer.

RDP

For Additional Reading . . .

James J. Mikesell. "Using a Home's Equity: An Economic Analysis of Reverse Annuity Mortgages and Some Alternatives." Paper presented at the American Association of Housing Educators, College Station, Texas, October 1979.

U.S. Senate Special Committee on Aging. *Turning Home Equity Into Income for Older Homeowners.* 98th Congress, 2nd Session, July 1984.

U.S. Senate Special Committee on Aging. Congressional Briefing, January 28, 1985.

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John A. Kuehn

Retirement: A Growing Part of Rural Economies

When you think of a rural area with a high proportion of retired people, you often picture an area that economic progress has left behind, an area where the elderly have remained after the young left for greater opportunity. When most people retire, they tend to live in the same area where they had been working.

But retirement is also a strong and expanding source of rural growth. While only a small proportion of the elderly move when they retire, many who do move seek out rural communities with favorable climates and good scenery. These older people bring to rural areas an important ingredient of economic growth—spending power that creates demand for a myriad of retail goods and locally produced goods and services.

Many retirees have decided that they can get the mix of goods, services, and amenities they want for the least cost in rural communities. Increasingly they have been "voting with their feet" for rural America. Economic developments of recent years have increased the income of retirees, making it easier than in the past for them to migrate to rural areas. Their incomes have been augmented by increasingly generous pension benefits and capital gains from the sale of their houses, which appreciated greatly in the 1960's and 1970's.

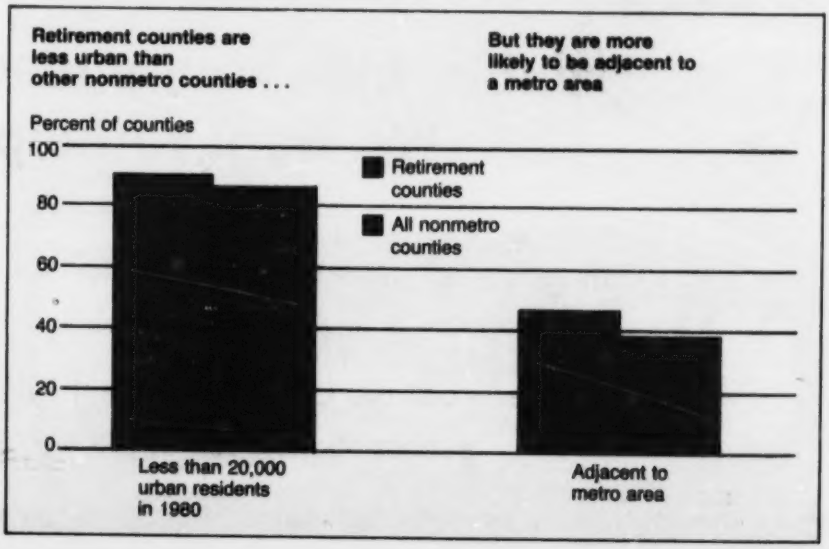
Retirement areas have become an important part of rural and small town America. Calvin Beale, a rural demographer in USDA's Economic Research Service, defines a retirement county as one in which the population 60 years or older grows by 15 percent or more from immigration over the course of a decade. He identified 515 of these counties in 1980, more than a fifth of all nonmetro counties. These counties were home to 26 percent of the nonmetro population 65 years of age and over in 1980. Total population in these counties increased by 33.5 percent between 1970 and 1980, compared with 14.6 percent for all nonmetro counties. Population growth in these counties since 1980 has slowed by about a third, but is still well above the average for all counties. These counties will likely continue to have above-average growth as the median age of the U.S. population rises.

Retirement counties are located throughout the Nation, but are concentrated in the following areas: a band from southern Texas northeast through the Ozarks; in Florida and Hawaii; in the upper Great Lakes States, especially northern Michigan, northern Minnesota, and northern Wisconsin; along a narrow band of the Appalachian Mountains and Atlantic Coastal Plain from northern Georgia through Delaware. They also are in parts of Arizona, New Mexico, northern California, western Oregon, and around Puget Sound.

Most of the new retirement counties have the following characteristics:

- High population growth rates in the 1960's, 1970's, and early 1980's.
- Mild climate (with some exceptions), scenery, lakes, or other natural amenities.
- Above-average proportion of income from transfer payments.
- A large service sector.

Few retirement counties have cities larger than 20,000; over a third are totally rural; another 53 percent have small towns ranging from 2,500 up to



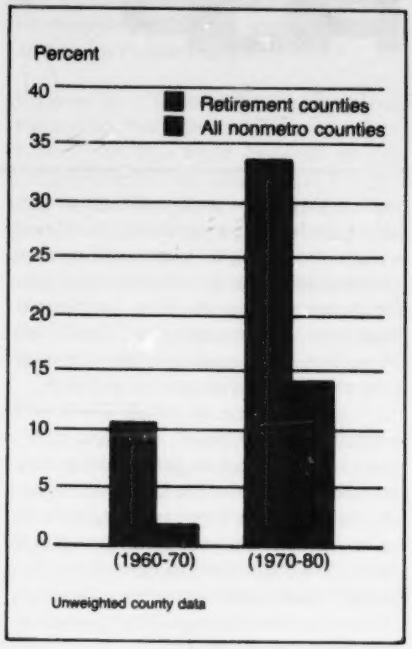
John Kuehn is an economist with the Agriculture and Rural Economics Division, ERS, stationed at Columbia, Mo.

20,000. Less than half of them are adjacent to a metro area. Their population density is the same as for all nonmetro areas—42 persons per square mile. About a fifth of their population receive social security payments. In these respects, they do not differ markedly from other nonmetro counties.

Unlike the economically stagnant nonmetro counties of the Great Plains, characterized by people who retire where they have always lived, retirement counties often attract young people as well. About half of the working age population in retirement counties are employed, only slightly less than in other types of nonmetro counties. About a third of the workers' earnings are from businesses in service industries, many of which cater to the needs of the elderly. A large number of these businesses are small owner-operated businesses.

While retirement counties currently are growing rapidly, a slowdown in the growth of transfer payments or in capital gains from the appreciation of houses could dampen their economic growth. In addition, as the elderly in the retirement counties continue to age, the proportion of the "very old" in the population of these areas will increase. In the future, adequately providing for the needs of these very old people may pose difficult problems for State and local governments.

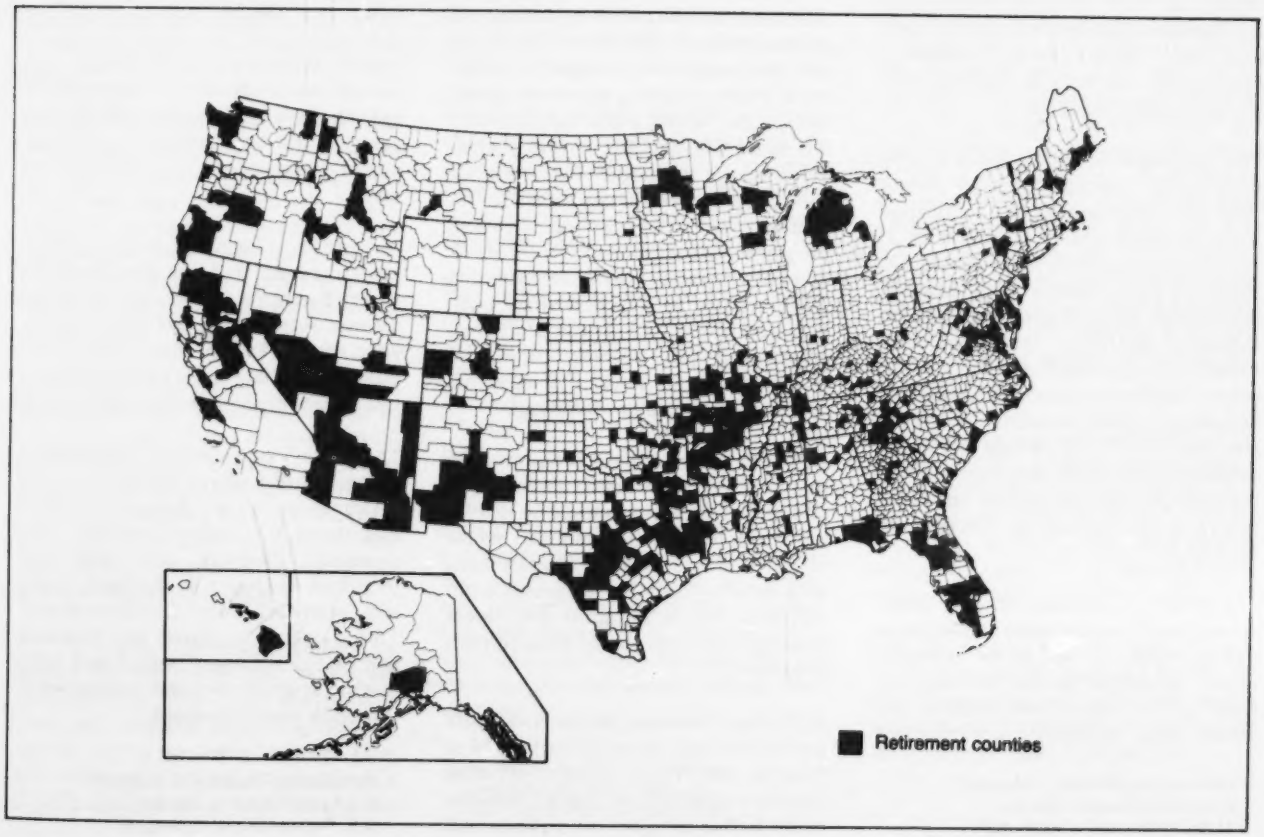
Population growth of retirement counties faster than average



Based in part on "Retirement Counties," in *The Diverse Social and Economic Structure of Nonmetropolitan America*, by Lloyd D. Bender and others. 36 pages. $1.50. Stock no. 001-019-00389-8. Available from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

See also "Older Urban Migrants in Rural Settings," in *International Journal of Aging and Human Development*, Vol. 16 (4), 1982-83, pp. 297-309, by Andrew J. Sofranko, Frederick C. Fliegel, and Nina Glasgow.

Nonmetro counties where people move to when they retire



BOOK REVIEWS

RDP

Compiled by Richard J. Reeder

INDUSTRIAL INCENTIVES: Public Promotion of Private Enterprise

William Hamilton, Larry Ledebur, and Deborah Matz. Asian Economic Development Series. Washington, D.C., Asian Press, 1984. 161 pages, $15.

THE STATES AND DISTRESSED COMMUNITIES: The Final Report

U.S. Advisory Commission on Intergovernmental Relations. A-101. Washington, D.C., 1985. 312 pages, $5.

Both of these publications address a current concern of State and local government officials: how to make the most of scarce economic development resources. With reduced Federal aid and stringent fiscal constraints for State and local governments, inefficient approaches to economic development are no longer affordable.

The Louisiana Small Business Equity Corporation deposits funds in private financial institutions to encourage them to make equity investments in companies licensed to make subsidized loans and investments in targeted small businesses. According to the book on industrial incentives, this is an innovative and cost-effective way of using public funds to promote industrial development. Other industrial incentives covered in this book include enterprise development grants, debt instruments, tax-exempt financing, equity and near-equity, tax incentives, and multi-State taxation.

The book's guidelines on how State governments can measure and improve the efficiency of economic development incentives should be required reading for State policymakers involved with economic development policy. City and county officials would also gain by following these guidelines when considering the costs and benefits of alternative local incentive policies. For example, the authors emphasize that the most common form of incentive—tax concessions—is not cost efficient and should be avoided.

Although public finance experts in industrial incentives might find little new ground covered in this book, lucid explanations of incentive techniques with up-to-date examples of actual programs make this book a valuable resource for policymakers and researchers who seek a better understanding of this confusing area of public finance.

The Advisory Commission on Intergovernmental Relations (ACIR) reports findings from its monitoring of State aid programs from 1979–83 in *The States and Distressed Communities*. The number of States targeting economic development aid to distressed communities increased substantially in that period. The increase was largest for enterprise zone programs and financial aid for industrial and commercial development programs. Other State economic development programs targeted to distressed places or people included small business and minority business programs, customized job training, industrial revenue bonds (targeted), and industrial or commercial site development.

ACIR's focus on targeted programs and its analysis of indicators of distress used to distribute State aid should be helpful to State policymakers interested in how to get scarce economic development assistance to the most distressed communities. This ACIR report also covers housing and community development programs.

ACIR also examines some State programs that help local governments to finance the basic public services needed to support economic development. In this category are policies that alleviate local government fiscal responsibilities, either by taking over functional responsibilities or by turning back State revenues to the localities, and policies that give more tax and spending discretion to local governments.

—Reviewed by Richard J. Reeder, Economic Research Service, U.S. Department of Agriculture

IMPROVING IMPACT ASSESSMENT

Stuart L. Hart, Gordon A. Enk, and William F. Hornick (eds.). Boulder, Col., Westview Press, 1984. 440 pages, $30.

SOCIOECONOMIC IMPACT MANAGEMENT

John M. Halstead, Robert A. Chase, Steve H. Murdock, and F. Larry Leistritz. Boulder, Col., Westview Press, 1984. 258 pages, $32.50.

Impact assessment is no longer concerned solely with air and water quality, as both these books make clear. Impact assessments now embrace socioeconomic and aesthetic considerations as well.

The editors of *Improving Impact Assessment* contend that the modifications and refinements introduced in impact assessments over the last decade go beyond mere technical fine tuning of the process and have in fact transformed it into something broader and more useful.

Their excellent, reflective introduction comes to grips with real problems in environmental impact assessment (EIA) and poses the central question: Are scientists, planners, and other EIA preparers engaged in distinctly separate activities from decisionmakers? This question triggered the Research and Decision Center project and symposium at which the papers compiled in this book were presented.

—Reviewed by Thomas A. Stucker, Economic Research Service, U.S. Department of Agriculture

The text explicitly states both its thesis and objectives up front and then follows closely the organization of symposium papers on which it was based:

- Broadening the scientific scope of environmental impact assessment
- Using environmental impact assessment techniques
- Keying environmental impact assessment to decisionmaking
- Analysis and case study, which serves as an umbrella for the separate papers and editors' analytical summaries (some of which are *very* well written and a real strength of the book)
- Recent changes and conclusions.

The text seems well organized and well thought out. After a slow start (much detail about the procedures used in arriving at a model EIA process), the text moves surprisingly fast.

A gem of wisdom is summarized on page 426 as the authors propose their interpretation of the environmental impact statement (EIS) experience over the past 10 years, "an interpretation that views the cumulative modifications and refinements in the process as potentially system transforming rather than mere increments of technical fine tuning."

This book is well worth reading for those who write EIS's, other socioeconomic analysts, and especially for those who have not seen the strides made during the past 10 years in broadening economic impact statements to be more complete assessments of the impact of projects on the environment and society.

In *Socioeconomic Impact Management*, Halstead and his coauthors attempt to rise above case studies of "impact mitigation" to provide "a single source that provides an integrated analysis of impact management principles and practices for large-scale projects." Their book succeeds admirably in design but is not always easy reading.

For example, the book begins by describing early attempts at impact management. This gives the book a slow and arduous beginning for the novice trying to learn quickly what socioeconomic impact management is (finally defined on pp. 11–12). At this same point, the focus of the book is explicitly defined as "the management of the socioeconomic impacts of resource development in rural areas." A very specialized topic indeed.

Chapter 2, "Theoretical Perspectives for Impact Management," is unusual in a book on this topic because of the uniqueness of individual impact management situations. And while few books on this subject go beyond documentation of case studies, this one is aimed directly at providing very basic theoretical perspectives; for example, functional, ecological, and systems theories, conflict theories, and so on.

The book does get to application of socioeconomic impact management theory, but not quickly. This leaves the reader feeling that its readability could be improved by "speeding it up," but that thoroughness and generality is also one of the book's strengths. The 34 pages of references alone may justify the book's purchase price.

THE ELDERLY IN RURAL SOCIETY

Ed. by Raymond T. Coward and Gary R. Lee. New York: Springer Publishing Co., 1985. 263 pages, $24.95.

The book's editors express two main objectives: (1) to show how aging affects rural residents and (2) to show how rural residence affects the aged. These aims are achieved, though not without some shortcomings.

The editors included a wide range of topics on the rural elderly; their demographic characteristics; work, retirement, and income characteristics; physical health, mental health, and housing characteristics; kinship relations, non-kin community relations and participation; and senior citizen service delivery and policy. All the chapters compare rural and urban older people; rural and urban environments; and rural and urban social services, programs, and policies. Several of the chapters integrate discussion of data on objective conditions and subjective data on attitudes of older people toward their situation.

—Reviewed by Nina L. Glasgow, Economic Research Service, U.S. Department of Agriculture

The introductory chapter presents a useful discussion of Federal policies pertaining to the older rural population. The chapter on the demographic aspects of aging in a rural society (Clifford et al.) is an excellent overview of the situation and recent trends affecting the composition of the elderly population in rural areas.

Several chapters, using data from census sources or findings adapted from original research by the author or by others, apply past research to the specific topics at hand. Because of the paucity of studies in which age and residence were key variables in research designs, however, the authors frequently are unable to make definitive or up-to-date statements or to cover fully the topics under discussion. This is the major weakness of the book, but partly reflects the existing limits of our knowledge. Other weaknesses are simply oversights. The discussion on the physical health status of older people, for example, would have benefited by including data available from the National Center for Health Statistics.

Rick Scheidt's article on the mental health of the rural aged was particularly insightful in the discussion of gaps in the literature and what research is needed on the mental health status of rural older people. The book is instructive in pointing to the openness of the field of rural gerontology; much is yet to be done. Philip Taietz's epilogue presents his views on the directions that future research should take. Unfortunately he draws on little research other than his own to make recommendations, and one begins to wonder if he dismisses all other research on rural aging as insignificant.

The chapters on rural health and human service delivery systems and alternative strategies for the development of policy on the older rural population will be especially helpful to readers who wish to increase their knowledge and awareness of program and policy issues.

I highly recommend the book. It contains many useful ideas and much useful information, and is the only recent book-length treatment on the status and needs of older rural people.

Compiled by Thomas McDonald

What Are Businesses Looking for in a New Location?

Whatever it is, North and South Dakota have it, according to a new study by Alexander Grant & Co. In their sixth annual study of general manufacturing climates, the Dakota's, two of the most rural (average nonmetro population of 74 percent) States in the Nation, placed first and second nationally as having the most desirable business climates.

Of the States that finished in the top 10, only Florida (9 percent nonmetro population) and Utah (23 percent nonmetro population) had less than 30 percent nonmetro population. The other States were Nebraska (54 percent), Mississippi (71 percent), Arkansas (61 percent), North Carolina (45 percent), Georgia (37 percent), and Tennessee (35 percent).

What does it all mean? One application is ready at hand in 10th-ranked Tennessee: Spring Hill, Tenn. (1980 population of about 700), was the site selected by General Motors to be the home of its new Saturn manufacturing plant. In 1980, Nissan selected Smyrna, Tenn. (1980 population of about 6,000 and only about 30 miles away from Spring Hill), to be the home of its new manufacturing plant.

The Alexander Grant assessment is based on five broad categories: State and local government fiscal policies, State-regulated employment costs, labor costs, availability and productivity of labor force, and other manufacturing-related issues (like energy costs, environmental controls).

The *Sixth Annual Manufacturing Climates Study* gives an analysis of how each State and each region fared. Cost is $35 from Alexander Grant & Co., 1700 Prudential Plaza, Chicago, Ill. 60601. Telephone (312) 856–0001.

Analyzing the Economics of Your Community

A new manual will help community leaders assess what kinds of development might work best, what kind is needed most, and what kind their community might find most desirable.

Community Economic Analysis: A How To Manual by the North Central Regional Center for Rural Development describes how to go about collecting information, guides readers through different methods of economic analysis, and shows the uses that can be made of different analytic tools.

Copies are free, while supplies last, from the North Central Regional Center for Rural Development, 578 Heady Hall, Iowa State University, Ames, Iowa 50011. Telephone (515) 294–1183.

Replacing Deteriorating Bridges

A Boone County, Mo., survey of its 324 bridges and culverts turned up 103 needing replacement, 29 needing major repairs, and 115 needing minor repairs. The county further discovered that nearly half of its bridges were limited to 7-ton loads or less, a capacity insufficient even for school buses (they need 8-ton bridges). The problem? How to pay for the repairs and upgrades.

Within 5 years, the county was able to:

- Persuade voters to approve a $7.5-million bond fund to finance the repairs.
- Replace or repair 181 bridges and culverts.
- Close three bridges.
- Contract for the repair or replacement of the remainder.
- Repay $5 million to the bond fund.

Robert L. Hagerty, the director of Public Works for Boone County, described how they did it in the March 1985 issue of "Rural Development News," a publication of the North Central Regional Center for Rural Development, 578 Heady Hall, Iowa State University, Ames, Iowa 50011.

Jobs vs Conservation?

Mills are closing and unemployment is twice the national average in the redwood empire of northern California.

Timber companies blame environmental regulations and the expansion of Redwood National Park for the loss of jobs. Others point to short-sighted logging practices that eroded the forest topsoil and clogged the creeks.

"Mad River: Hard Times in Humboldt County" is an award-winning film based on the growing disruption in the California timber industry.

The film follows the efforts of the owner of a shut-down plywood mill to understand what's going on and to reopen his mill. In doing so, the film poses the question of whether we must choose between jobs and the environment. The film traces the relationships among resource management, capital mobility and industrial policy, environmental protection, and community economic development.

The 55-minute film rents for $75 ($65 videocassette) from California Newsreel, 630 Natoma St., San Francisco, Calif. 94103; telephone (415) 621–6196.

Harvesting Hometown Jobs

That's the title of a 36-page guide for getting hometown development started. The guide offers tips on cultivating jobs and recruiting business, and explains simple and effective strategies for fundraising.

The guide illustrates its principles with

examples of how towns have applied the ideas successfully.

The guide's six step-by-step chapters tell smalltown officials about strategies for economic development, how to organize their community, how to collect and assess community data, how to cultivate "backyard" development (start up new business and expand existing ones), how to recruit new manufacturing firms, and how to raise money to do all that.

Harvesting Hometown Jobs costs $3 from National Association of Towns and Townships, Dept. E., 1522 K St., N.W., suite 730, Washington, D.C. 20005. The publication was supported by a grant from the U.S. Economic Development Administration.

Rural Living Good for Your Health? Depends on Where You Live

We've suspected it all along, now we may have some proof. Eight of the 10 States with the longest life expectancy have high proportions of rural inhabitants. But most of those States are in the upper Midwest. Southern States fare more poorly.

In a study based on the 1980 census, the National Center for Health Statistics found that the 10 States with the highest life expectancy in the Nation had average nonmetro populations of 44 percent, nearly double the national average of 24 percent. The highest ranking States are Hawaii (22 percent nonmetro population), Minnesota (35 percent), Iowa (58 percent), Utah (23 percent), North Dakota (64 percent), Nebraska (54 percent), Wisconsin (33 percent), Kansas (50 percent), Colorado (20 percent), and Idaho (81 percent).

The 10 States with the lowest life expectancy also had an average nonmetro population of about 44 percent. Those States were mainly in the Southeast: Delaware, Kentucky, North Carolina, West Virginia, Nevada, Alabama, Alaska, Georgia, Mississippi, South Carolina, and Louisiana.

The study also found that whites generally outlive blacks (75.3 years vs 69.7 years) and women continue to outlive men (78.3 years vs 71.1 years).

Farm Stress

Poor prospects for farmers are leading to a number of medical problems, including alcohol abuse and despondence, according to *American Medical News*.

A mental health hotline reports that the number of calls from farmers have nearly doubled from the level of a few years ago.

To make ends meet, farmers may overwork themselves, making them "vulnerable to symptoms of heart disease, ulcer, anxiety disorders, and clinical depression."

Farm children are also suffering from emotional stress, say sociologists William and Judith Heffernan of the University of Missouri, who describe that as "one of the undiscussed social costs of the rural crisis."

Rural Resources in Print

NATaT's National Community Reporter ($36/year for 10 issues). Newsletter of pertinent information and announcements of useful material from local government units. Write to National Association of Towns and Townships, 1322 K St., N.W., Washington, D.C. 20005.

Planners Bookstore (free). Catalogue of titles covering topics like zoning, historic preservation, rural and small town planning, municipal services. Write to American Planning Assoc. 1313 East 60th St., Chicago, Ill. 60537. Two books of special note: *Downtown Improvement Manual* (1976, $26.95) and *Rural and Small Town Planning* (1980, $14.95).

Rural America: A Voice for Small Town and Rural People (semi-monthly; $10/year). Book reviews and notices of community development information as well as articles about rural life. Write to Rural America, 1900 M St., N.W., Washington, D.C. 20036.

Rural Library Service Newsletter (quarterly; free). Helps keep smalltown libraries up to date. Write to John Houlahan, Northwest Iowa Regional Library, 6th and Jackson Streets, Sioux City, Iowa 51105.

Design Resourcebook for Small Communities (1981, $10) and *Historic Preservation Resourcebook for Small Communities* (1983, $10). Both available from Small Towns Inst., P.O. Box 517, Ellensburg, Wash. 98926.

(Suggested by John Christenson, director, Traverse des Sioux Library System, Mankato, Minn., and Mayor of Good Thunder, Minn., pop. 560).

Rural Libraries

"Information in Rural America" is the title of a 1984 symposium of the American Society for Information Sciences.

Speakers were Elinor Hashim, chairperson of the National Commission on Libraries and Information Science; Ron Brach, executive director of the New York State Legislative Commission on Rural Resources; Glenn Wilde, associate dean of continuing education at Utah State University; Juliet Miller, director of information systems at the National Center for Research in Vocational Education; Raymond D. Lett, executive assistant to USDA Secretary John Block; and Hollis Hall of USDA's Extension Service.

Copies of the symposium cost $22.50 from Knowledge Industry Publications, Inc., 701 Westchester Ave., White Plains, NY 10604; telephone (toll free) 800-248-5474. Ask for ASIS Proceedings, volume 21, "Challenges to an Information Society."

In a similar vein, the National Commission on Libraries and Information Science offers *(free)* a publication called *The Role of Libraries and Information Technology, Joint Congressional Hearing on the Changing Information Needs of Rural America.*

Write to Jane Thomas, NCLIS, GSA Building, suite 3122, 7th and D Streets, S.W., Washington, D.C. 20024; telephone (202) 382-0840.

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Rural Bank Failures

The Farm Crisis and Rural Communities

Economic Analysis and Minnesota's Iron Range

Giving Up the Family Farm

Professional Networks

More Inside . . .

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Editor's Notebook

Attention to the ongoing farm crisis has focused mostly on farmers and the farm sector. Far less has been said about what it means for rural communities and their public and private institutions or for families who have had to give up farming.

Most of the articles in this issue deal with community-wide effects of the farm crisis. This focus is a departure from our usual practice of including articles on a range of rural development topics. We feel the subject is sufficiently important and timely that we temporarily concentrate on a subject closely linked to agriculture. Future issues will return to our usual format of dealing with a broader selection of rural development topics.

Not all rural communities have been severely affected by the financial distress in agriculture. Petrulis, Hines, and Green discuss five factors that explain why the economies of some areas are much more affected by the farm problem than others. From a somewhat different perspective, Schluter and Edmondson use several measures to assess the importance of agriculture to a State's economy.

Some rural banks have been casualties of the farm crisis. The closing of a local bank can be a dark day for a rural community. Depositors worry about the safety of their money and borrowers about the availability of credit, while bank regulators meet behind closed doors to determine the fate of the bank. Gajewski sheds light on the train of events that follow the decision to close a bank and analyzes what has happened to failed rural banks over the last few years. He finds that in most cases they have reopened almost immediately under new and often local ownership. While a small proportion of rural banks have actually failed, Milkove, Sullivan, and Mikesell find that in areas hard pressed by the current farm stress, that stress is being transferred to other rural banks. Access to credit is likely to diminish as rural banks increase their reserves to adjust to growing numbers of questionable loans. This tighter credit, in turn, can hinder community efforts to generate economic development to offset a decline in the local farm economy.

The most obvious product of the farm crisis is the large number of farmers who have to leave farming. For these people and their families, adjustment to a new way of life both threatens and challenges. Heffernan and Heffernan examine the situation for Missouri families who have been displaced from agriculture. Leistritz and his co-authors analyze the characteristics of North Dakota and Texas farm families, likely to be forced out of business, to gain an understanding of the personal resources they have—employment experience, education—that will help them move on to a new life not based on farming.

This issue of *Rural Development Perspectives* marks the end of our second year of publication. We are delighted that the journal has been so well received. We hope to make it even more responsive to you; so, by all means, let us know what you think of past articles, what topics you want to see in the future, and what your thoughts are on rural issues. We will print as many of your letters as space permits.

Sara Mills Mazie
Executive Editor

by Gregory Gajewski

Rural bank failures are at record high levels. But the failures themselves may be less of a problem for rural areas than the generally conservative lending practices of the banks when they reopen under new ownership.

by Fred K. Hines, Bernal L. Green, and Mindy F. Petrulis

Some regions are affected more than others by current farm problems just as some types of farms are affected more than others. The Midwest, Plains, and Delta are among the hardest hit regions. Other regions, and their farms, are doing much better. Some reasons why.

by F. Larry Leistritz, Brenda L. Ekstrom, Arlen G. Leholm, Steve H. Murdock, and Rita R. Hamm

Farmers under age 45 with above-average numbers of school-age children have been hardest hit with financial problems. As these families leave the community to take nonfarm jobs, the declining population and tax base may spell trouble in financing public services for those who remain.

by Daniel L. Milkove, Patrick J. Sullivan, and James J. Mikesell

Problem farm debts may translate into slow growth for rural communities, with local banks unable to offer credit even to creditworthy borrowers. Communities served by branches of large banking organizations are probably better off than communities served only by small independent banks.

by Margaret E. Dewar

Some States use subsidies, grants, and other public monies to rejuvenate lagging rural economies. But unless sound analysis is used to guide these efforts, the money may not have the desired effect. Some lessons from Minnesota might help other States formulate some checks and balances on the use of such money.

by Judith Bortner Heffernan and William D. Heffernan

Losing the farm can throw a family into an emotional turmoil only partly due to the financial uncertainties they face. Some Missouri families talk about what they went through, the help—and lack of help—from the community, and how they have fared since.

by Gerald Schluter and William Edmondson

Agriculture spawns more than 20 percent of all U.S. jobs, reaching far beyond the farmgate. Its importance in the economy of each State depends on the State's mix of industries as well as on the number of farm-related jobs themselves.

by Herbert Waltzer, Philip A. Russo, Jr., and W. Robert Gump

Public officials who belong to professional organizations give their constituents better value than those who do not. Members of such organizations are more likely to recognize when they need to call in outside help for technical assistance and whom to call.

Substandard Housing

Managing Development in Small Towns
The Changing Rural Village in America
The Making of a Town: Wright, WY

Photo by A. Craig Benson

When Strong's Bank in Dodgeville, WI, closed, no long lines of depositors formed, unlike the situation in the 1920's and 1930's. Deposits are now insured by a Government agency and most banks reopen soon under new management.

Gregory Gajewski

Rural Bank Failures Not a Big Problem—So Far

There were more bank failures in 1985 than in any year since the Great Depression. About two-thirds of them were in rural areas, especially farm areas. Most of the failed banks were purchased and reopened almost immediately without the severe disruptions that accompanied Depression-era bank failures. Two areas arouse concern: banks that took over failed banks are somewhat more conservative than average and may make small proportions of their funds available for loans; and the Federal Deposit Insurance Corporation (FDIC) is having increasing difficulty finding suitable banks willing to take over failed rural banks.

The 118 commercial bank failures in 1985 represent a twelvefold increase since 1981 and set a post-Depression record for bank failures in 1 year. An increasing proportion of the failed banks are rural or agricultural banks. Almost 70 percent of the failed banks in 1985 were rural banks, up from 34 percent in 1983; and more than 55 percent were agricultural banks, up from 16 percent in 1983.

This article highlights recent trends in commercial bank failures to see how the failures are affecting rural communities and if rural growth is threatened by too few banks serving local rural markets.

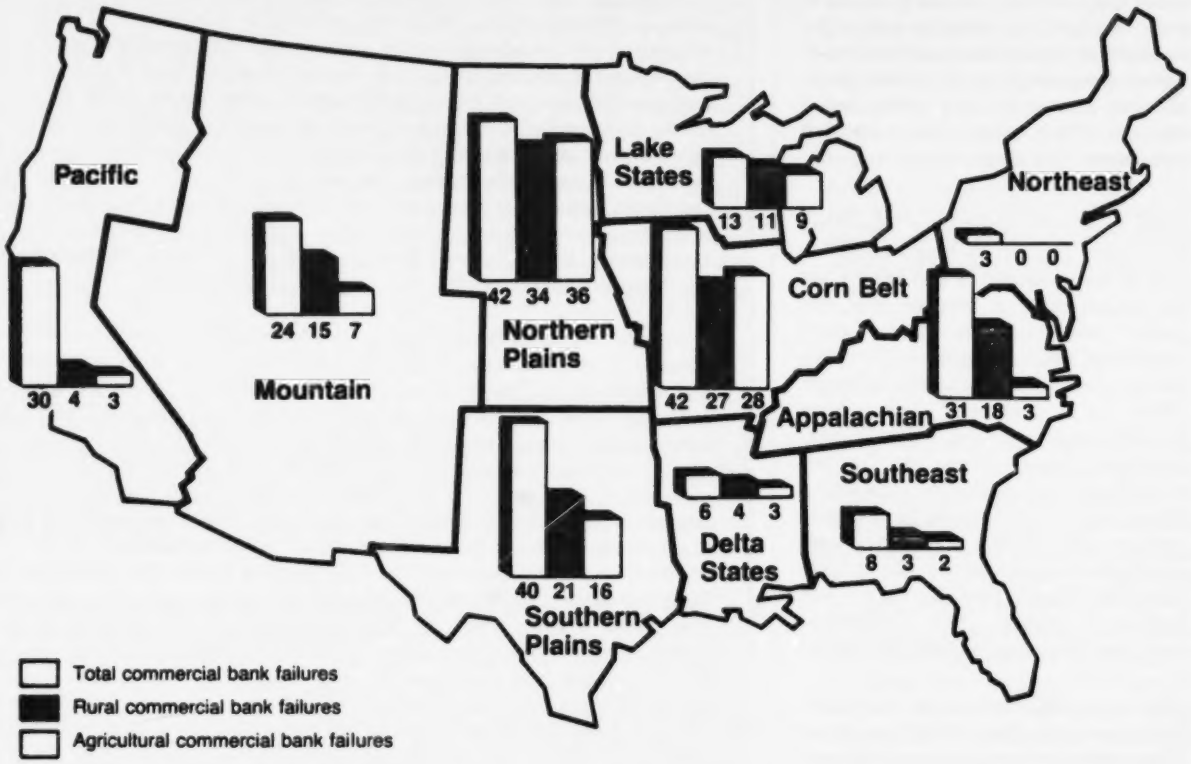
Bank failures have not, so far, hurt a large segment of the rural population. Most failed banks are replaced by healthy ones within a few days. This may be changing, however. The FDIC is beginning to have difficulty finding banks willing to acquire failed institutions. Moreover, individuals suffering debt repayment problems and marginally qualified borrowers find it more difficult to obtain credit as a result of these failures, hindering local economic growth and development. The continuing financial problems of farmers and problems developing in the energy sector will likely cause additional rural banks to fail over the next several years. While these failures will hurt local and regional credit markets, recent experience suggests that the national effects will be relatively mild.

A Look at Banks that Fail

Over the 1983-85 period, 239 commercial banks failed; 137 were rural and 107 specialized in financing agricultural activity (fig. 1). Bank failures in the Corn Belt and Plains States accounted for over half of all failures, about three-fifths of rural bank failures, and almost three-quarters of agricultural bank failures. No rural or agricultural banks failed in the Northeast.

Gregory Gajewski is a financial economist, with the Finance and Tax Branch of the Agriculture and Rural Economics Division, ERS. The author thanks Lynn Nejezchleb, James Marino, and J. Paul Ramey of the FDIC and Kevin Raymond of the Board of Governors of the Federal Reserve System for their comments on an earlier draft of this paper.

Figure 1.
Most rural bank failures are in the nation's heartland



*Data for 1983-1985

Note: See the "Data and Definitions" box for information on types of banks.

Rural Bank Failures a Reminder of the Twenties

Problems faced by rural banks in the 1921-29 era and the current period show striking similarities. The roaring twenties were characterized by sustained economic growth on a national level combined with deteriorating conditions (sharp declines in agricultural land values and incomes) in the agricultural sector. These factors, together with excessive debt incurred immediately after the first World War, produced many symptoms of depression in rural America.

An average of 600 banks per year failed between 1921 and 1929. Reflecting the problems of many rural areas, a large proportion of these were rural, and over half were in seven northern grain-producing States. Then, as now, little concern was expressed over these failures precisely because most were small, rural, and isolated. The failures were even touted as a positive force in promoting market discipline.

Despite the strong parallels between the two periods, important differences exist. Relative to the total number of banks, the annual proportion of bank failures was roughly three times greater during the twenties. Moreover, important institutional changes largely insulate today's rural economy from the devastating effects of commercial bank failures then. A failed bank no longer means the financial ruin of thousands of depositors and subsequent declines in economic activity. Rather, the main issues now focus on the degree of local control in the bank acquiring the failed bank, banking service availability in rural areas, and credit availability for marginally qualified rural borrowers.

The geographic distributions of failed agricultural and rural banks are similar, with the exception of the Appalachian States. The disproportionately high number of rural, nonfarm bank failures there is due in part to the collapse of the Butcher brothers' chain banking organization in Tennessee. In all, 10 banks in this chain failed through 1984; some were rural but none were agricultural banks.

State laws that restrict bank branching have been blamed as major contributors to bank instability and failure, yet the distribution of failures over this period among unit banking, limited branching, and statewide branching States provides inconclusive evidence. While the proportion of bank failures to all banks is somewhat higher in unit-banking States than in limited branching and statewide branching States, many unit-banking States are in regions hit hardest by agricultural problems. As a result, the role of State branching laws in contributing to bank failures is unclear. (See "Definitions and Data" for types of bank structure.)

Only nine banks owned by multibank holding companies (MBHC's) failed from 1983 to 1985. However, the proportion of failures that were one-bank holding companies rose markedly, from 14 percent of all bank failures in 1983 to 54 percent in 1985. MBHC's that acquire failed banks also have a history of making relatively more loans than other types of acquiring banks. The relationships between competition, corporate structure, and safety of the banking system should be considered in State policy debates regarding MBHC's.

The small size of most failed banks since 1982 is one reassuring datum on the stability of the national banking system. About 80 percent of the failed banks had less than $50 million in assets, and fewer than 5 percent had over $300 million in assets at the time of failure. Since 83 percent of all banks have assets below $100 million, size alone does not seem to contribute to bank failure.

Several characteristics set failed commercial banks apart. Data for the year preceding failure show that the typical failed bank was undercapitalized and attracted a high-cost, unstable deposit base to support large, risky loan portfolios. What is unclear is whether the banks adopted those strategies in response to earlier problems and the threat of failure, or as their long-term corporate plans.

The FDIC usually diagnoses the causes of bank failure as a combination of bad management and poor loan quality. But classifying a primarily agricultural

Definitions and Data

Commercial bank failures and their acquisitions from January 1, 1983, through December 31, 1985, are included in this article. Excluded are failures of mutual savings banks, savings and loan associations, commercial banks not insured by the FDIC, banks headquartered in U.S. territories and possessions, and two acquisitions of failed banks made by foreign banks. Noninsured commercial banks account for less than 1 percent of commercial bank offices in the United States and less than 3 percent of commercial bank failures over the last 10 years. Although seldom done, regulatory authorities may inject capital and force a change in bank control to prevent an ailing bank from failing. This procedure was followed with Continental Illinois National Bank in 1984, for example. Because such institutions do not technically fail, they are also excluded.

A commercial bank is classified as rural if its headquarters is located in a nonmetropolitan county. Agricultural banks are those with 17 percent (the average for all banks) or more of their loan portfolios in agricultural loans. In December 1984, there were 7,900 rural banks, and 5,157 agricultural banks, of which 4,523 were also rural.

Because much of this article deals with the effects of the bank failure-acquisition process on the structure of local banking markets, a brief review of some important aspects of the U.S. banking industry is presented here. State law determines the allowable numbers and locations of branch offices that banks may operate. No branching activity is permitted by banks located in unit-banking States. In limited-branching States, however, branch offices are restricted to one county or contiguous counties. Statewide branching States place little or no restrictions on bank branching activity. Many States that restrict bank branching allow multibank holding companies (MBHC's) to compete throughout the State via their subsidiary banks. These firms own two or more legally separate banks, each of which may have its own branch offices, if permitted by State law. One-bank holding companies, however, subject to the same branching laws as independent banks, are allowed to offer banking-related services not permitted their independent counterparts. A more informal grouping of banking firms, often referred to as a chain banking organization, represents another way bank owners attempt to get around local branching laws. A chain banking organization is composed of two or more "independent" banks whose controlling interests are owned by the same individual or group of individuals.

Data for individual banks, from quarterly Reports of Condition and Reports of Income, were provided by the Federal Reserve Board of Governors. Failure and acquisition data were provided by the FDIC. Whenever possible, financial information from the December Reports was used in order to avoid comparability problems induced by systematic seasonal variations in the data.

When the FDIC Steps In

The decision to close a bank rests not with the bank officers, but with its chartering authority: the Comptroller of the Currency for national banks and the State banking authority for State banks. When the regulator determines that a bank faces imminent failure because its net worth is zero or is irreversibly approaching that level, the FDIC, as receiver, is notified. The FDIC evaluates the bank's condition and selects from among three methods available to close a bank. If the FDIC believes that it can arrange a takeover, it solicits "purchase and assumption" or "deposit transfer" bids from other banks and qualified individuals to assume the failing bank's operations or buy the insured portions of its deposits. Much of this activity takes place behind the scenes so that a bank often reopens under new ownership on the first business day following failure. If no acceptable bid is received, perhaps due to the failed bank's financial condition or because State law prohibits branching activity or MBHC acquisitions, the FDIC is compelled to use the payoff method.

Payoff. Under the payoff method, depositors receive all their funds up to the maximum insured deposit of $100,000; the FDIC assumes ownership of the failed bank's assets, and the bank is closed without being replaced. Depending on the amount the FDIC recovers from disposing of the bank's assets, depositors may later receive some reimbursement for deposits in excess of $100,000, but the final disbursement may take a year or more.

Purchase and Assumption. In a purchase and assumption transaction, the failed bank becomes either a branch of an existing bank, an affiliate of an MBHC, or opens as an entirely new bank or one-bank holding company. All deposit funds, including uninsured balances, become immediately available to the depositors. The acquiring party assumes the failed bank's deposits and other liabilities, and purchases its sound loans and other quality assets. The FDIC holds the remaining assets, which are eventually sold, collected, or written off. This procedure enables the failed bank to reopen under new ownership and in a strong position. It was used in 185 of the 239 cases covered in this article.

Deposit Transfer. The FDIC adopted the deposit transfer method in 1983. Used relatively infrequently (21 cases) so far, this method costs the FDIC less than a payoff but may prove more disruptive to customers of the failed bank than a purchase and assumption. A healthy bank buys the right to act as the FDIC's agent in handling the payoff of the failed bank's insured deposits and may also purchase its offices and other selected assets. The major differences from a purchase and assumption are that the acquiring bank need not honor promised interest rates on deposits transferred from the failed bank, and uninsured deposit balances are handled in the same manner as in a payoff.

loan portfolio as a poor management decision seems unreasonable when such portfolios had been highly profitable for decades preceding 1982. The FDIC has recently begun to recognize that a depressed local farm economy has contributed to a number of failures.

Portfolio choices made by failed rural banks do raise questions about how rural banks can best serve rural communities. Loan portfolios heavily tilted to agriculture and related rural activities are practically predetermined for many small rural banks wishing to serve local loan needs. The review here of failed bank characteristics suggests that such a strategy, if coupled with the practice of holding a high percentage of bank assets as loans, may be unsafe and linked to a higher probability of failure. Thus, the long-term interests of rural communities might be served better if rural banks that adopted such a high-risk strategy adjusted their portfolios to include fewer local loans and more low-risk nonloan assets. Many sound rural banks are now doing just that.

How the Community Can Be Affected

The effects of a bank failure are intensified for rural communities with relatively few banks. If large local depositors, including the area's major businesses, lose uninsured deposits, economic conditions in the community may worsen. Insurance coverage for large depositors depends on the liquidation method applied to the failed bank by the FDIC (see box, "When the FDIC Steps In"), but deposits up to $100,000 are available almost immediately in all cases.

Rural communities lose the most banking services when a failed bank is closed and its insured deposits paid off by the FDIC (the payoff method). Although only 33 out of the 239 failed banks were liquidated in this manner in 1983-85, 24 of those 33 were rural. In 1985 alone, 17 rural banks in Kansas, Nebraska, Oklahoma, and Texas were lost through payoffs.

The number of banks remaining in the community after these payoffs is the best gauge of the damage inflicted on availability of local banking services. A rural Nebraska county, after losing two one-office banks, had only three banks left, and a rural county in Kansas was left with only two banks. Most affected counties had four to nine surviving banks operating within their borders, but some rural towns lost their only bank when the FDIC used the payoff method. Because the FDIC has had difficulty recently securing acceptable ac-

"Risky banks that fail should be replaced with sound banks, but not with banks that are overly conservative."

quisition bids for failing rural and agricultural banks, the number of rural counties and communities that lose banking services is expected to increase.

Regardless of the liquidation technique employed, credit availability in rural communities affected by bank failures is the major long-term issue. Debtors with loans outstanding at failed institutions usually find that their loans have been sold to the acquiring bank, or neighboring banks in the case of payoffs or deposit-transfers. Even debtors with good loan records will have to establish a new relationship with a loan officer.

Debtors with troubled loans are probably hurt the most. An assuming bank does not purchase such loans; the FDIC is left to administer them. The FDIC tends to be strict with problem debtors since its legal responsibilities are to the failed bank's insured depositors, depositors with uninsured balances, and the bank's bondholders and shareholders. The FDIC liquidators do work with borrowers to try to devise an acceptable plan to retire their debt in an orderly fashion. But many problem debtors, who may have been able to renegotiate their loans with the now-defunct bank, face FDIC-ordered foreclosure. Marginally qualified borrowers in a community where a bank has just failed may find it difficult to secure credit if the community has few other lending institutions.

What the New Owners Are Like

The FDIC ensures that an assuming bank is financially healthy and well capitalized through a cash injection that equals the difference between the acquired liabilities and assets (less the price paid to the FDIC for the bank). The acquiring bank must provide sufficient capital in the form of owners' equity.

The issue of control, however, dominates the disposition of failed rural commercial banks. Communities are concerned that big "outsider" bank organizations may drain local funds for use elsewhere in spite of the large FDIC cash injection. If the new bankers do not understand local market conditions, they may offer insufficient credit or unfavorable loan terms. Reduced competition in local markets is also possible if a former competitor takes over the failed bank.

Whether or not the failure-acquisition process lessens "local" control of a bank's lending decisions is difficult to determine on the basis of public data. Control may or may not be affected if a larger bank organization acquires a failed institution, but the *fear* of "outsider" control is likely if the failed institution (a) becomes a branch of a larger urban-based bank, (b) is acquired as an affiliate (or the branch of an affiliate) of a large MBHC, or (c) is taken over by individuals who control a chain of other independent banks.

Fears of big bank empire-building through failed bank acquisitions appear unfounded, but cannot be dismissed. Of the 196 commercial banks that acquired failed banks since 1983, 105 were rural and 52 were agricultural banks (fig. 2). On average, assuming banks were slightly larger than the failed banks they purchased. More than 25 percent of assuming banks had total assets under $25 million, while 85 percent of assuming rural banks had total assets below $100 million prior to acquisition. For assuming agricultural banks, about half had total assets under $25 million and 96 percent had assets of less than $100 million. Only one failed bank had assets in excess of $1 billion, yet 10 acquiring banks' assets exceeded $1 billion. None of these large banks was located in a rural area or specialized in agricultural finance (fig. 3).

More than two-thirds of the acquiring banks were associated with holding companies, with MBHC affiliates accounting for a significant portion of the total (fig. 3). That proportion is similar to the national average. The average acquiring MBHC owned 12 commercial banks after acquisition. Holding companies are not using acquisitions of failed banks to expand their national banking market share. Moreover, unless expressly permitted by State law, holding companies cannot expand across State lines.

Since 1983, 44 independent banks and 66 one-bank holding companies have acquired failed banks, over half of which were rural (fig. 3). While specific data are lacking, chain banking organizations are believed responsible for most of those acquisitions. Most chains are small, but some control over 30 banks.

The location of the acquiring bank is also important in measuring the quality of service provided to local banking markets. State law often requires that acquiring banks be located in the same State as the failed institution. In fact, of the 206 failed banks purchased by another bank during 1983-85, 130 were acquired by a bank headquartered in the same county as the failed bank they replaced (fig. 3). Only one rural bank, in Oregon, was acquired by an out-of-State bank.

Another important determinant of the purchasing bank's location is its age. All but 5 of the 89 banks created for the sole purpose of acquiring a failed bank were headquartered in the same county as the failed bank they replaced. Failed bank purchases by previously existing banks, on the other hand, were more likely to be in a different county; 61 percent of these banks were headquartered outside the failed bank's home county.

Fewer than 20 percent of the failed rural banks were acquired by urban-based banks. Moreover, urban money center banks did not acquire any small rural banks that failed. Only one urban

Figure 2
What happened to failed banks? (1983-85)

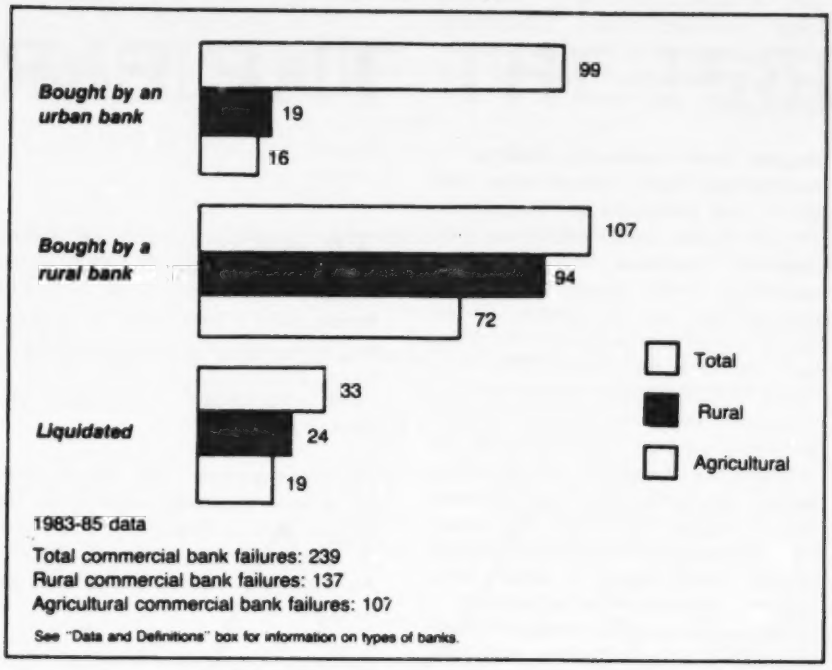
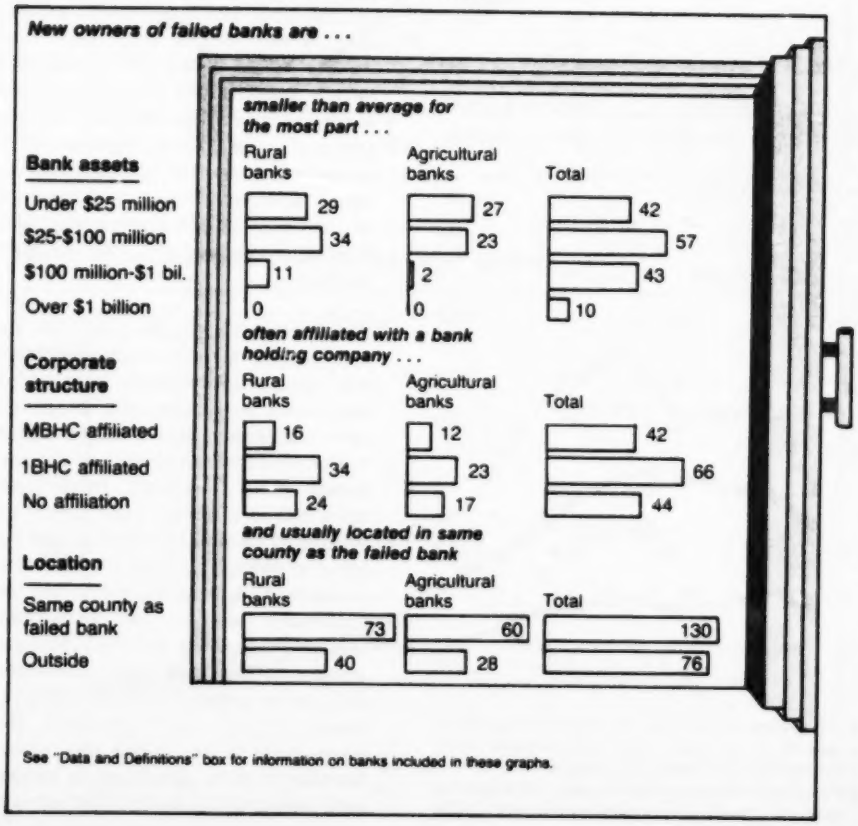


Figure 3
What kind of banks acquire failed banks?



bank with assets over $1 billion acquired failed rural banks. Headquartered in Portland, Oregon, it purchased two failed small rural Oregon banks. With roughly $5.6 billion in assets, it is not considered one of the Nation's money center banks. Almost all of the remaining 14 urban banks that acquired failed rural banks over this time period were somewhat larger than the average commercial bank, but all were considerably smaller than money center banks. The average bank has about $117.5 million in assets, while assets of the acquiring urban banks (excluding the Oregon bank) ranged from $15 million to $655 million and averaged $247 million.

A basic community issue for rural areas regarding the acquiring banks is their viability in the local market. The new banks appear to be well-run, solid institutions, as illustrated by below-average ratios of loan losses (net loan charge-offs) to total loans and adequate to above-average capitalization rates (table 1).[1] Their relatively high ratios of net income to equity capital illustrate the profitability of their operations. Below average loan-to-asset ratios may indicate a conservative approach to making loans. This tendency is even more pronounced for independent acquiring banks, which have loan-to-asset ratios 6.0 to 10.1 percentage points below the average of comparable banks. The FDIC, with the involvement of the Board of Governors of the Federal Reserve System in appropriate cases, apparently selects acquiring banks that are sound and have a high probability of safe future operation.

The conservative behavior of rural banks was sometimes thought to restrict rural development. If so, the conservative nature of acquiring banks, especially those not affiliated with a holding company, may herald tighter credit conditions in affected communities, constraining business starts and expansions. Risky banks that fail should be replaced with sound banks, but not with banks that are

[1]Equity capital and provisions for loan losses both provide cushions for the bank against future setbacks. Higher ratios of equity capital to assets and provision for loan losses to total loans generally implies improved bank safety.

overly conservative. Selecting "safe" acquiring banks that avoid borrowers whose loan applications would normally have been accepted by other banks can impede a community's long-term growth. While analysis of acquiring banks' behavior raises the suspicion that this is occurring, lack of detailed data prevents a definite conclusion.

The rise in rural bank failures is a regional phenomenon, linked to the agricultural crisis and increased stress in some rural areas due to the uneven nature of the economic recovery from the 1979-82 recession. Over 97 percent of failed banks since 1975 have been members of the FDIC, so depositors' funds were protected for the most part. Furthermore, relatively few bank failures caused the bank offices to close permanently, though this situation may soon change if the FDIC continues to have difficulty finding suitable buyers of failed rural banks. Banks acquiring failed rural banks have tended so far to be small, rural, and headquartered within the same county as the failed institution. Thus, bank failures have not caused a wholesale shift of local credit market shares to large "outsider" bank institutions, although activity by chain bank organizations somewhat weakens this conclusion.

Despite these reassuring findings, a commercial bank failure does hurt some rural borrowers and depositors. The FDIC has no obligation to help troubled borrowers find alternative sources of credit. Rather, the FDIC is responsible for liquidating failed banks' assets for the benefit of depositors, creditors, and shareholders. As a result, debtors having trouble meeting their loan payments often face FDIC-ordered legal action. Furthermore, the conservative behavior of acquiring banks, especially those not affiliated with a holding company, may mean that marginally qualified borrowers are denied credit once a failed bank reopens. Depending on the behavior of other nearby lenders, communities experiencing a bank failure may face reduced growth potential even if the bank reopens under new ownership and management.

Table 1—Acquiring banks look solid, safe, and somewhat conservative

Item	All banks		Rural banks		Agricultural banks	
	Total	Acquiring	Total	Acquiring	Total	Acquiring
			Number			
Number of banks[1]	14,088	115	7,749	52	4,873	33
			Percent			
Loans/assets	52.2	50.8	50.8	47.0	50.0	44.5
Total agricultural loans/total loans	17.5	15.2	27.3	31.1	42.4	46.6
Net income/equity capital	10.3	12.7	10.6	12.4	10.7	12.0
Net loan charge-offs/total loans	.8	.7	.8	.7	.9	.9
Effective interest rate	12.6	12.8	13.1	13.1	13.4	13.4
Provision for loan losses/total loans	.8	.8	.9	.7	1.0	.8
Equity capital/total assets	9.1	8.6	9.2	9.4	9.4	10.4

Note: See "Data and Definitions" box for information on types of banks. Ratios represent unweighted averages reported at the end of the previous year and exclude newly chartered banks. Banks reporting extreme values were excluded from totals.

[1]The total number of banks in each category as of December 1984; numbers of acquiring banks are the sum for 1983 through 1985. Acquiring banks are subsets of the totals. Only acquisitions by previously existing banks are included.

THE FARM

The Department of Agriculture estimates that nearly a fifth of the Nation's commercial farms, those with annual sales of over $40,000, had both excessive debt and negative cash flow as of December 31, 1984. Many of those who operate these farms may have to leave farming.

The three articles that follow focus on several important aspects of the current farm crisis. They are based on presentations made at USDA's Agricultural Outlook Conference last December.

Farmers are under financial stress because economic conditions in agriculture shifted abruptly from being extremely favorable throughout most of the 1970's to being extremely unfavorable in the 1980's. High farm commodity prices in the 1970's, resulting largely from rapidly expanding export markets, combined with low to negative real interest rates (the nominal interest rate corrected for inflation) and rising farmland prices to make farming in the early 1970's and owning farmland throughout the 1970's highly profitable.

These conditions both permitted and encouraged farmers to go into debt to buy rapidly appreciating farmland, to buy more expensive and productive farm machinery, and to increase greatly the production capacity of the farm sector. More important, those conditions led to a strong expectation that returns to owning farmland would continue to be high because of both strong markets for farm commodities and continued inflation. But farm conditions deteriorated in the 1980's. A worldwide recession and the strong U.S. dollar greatly reduced foreign demand for U.S. farm products. High farm prices of the 1970's also induced farmers in other countries to increase their production, further reducing demand for American farm products. The

CRISIS OF THE 1980's

reduced foreign demand and the global buildup in the supply of farm commodities combined to force U.S. farm prices down to price-support levels and led to the expectation that prices would drop even lower in the future.

Figure 1
Major economic indicators in the U.S. economy

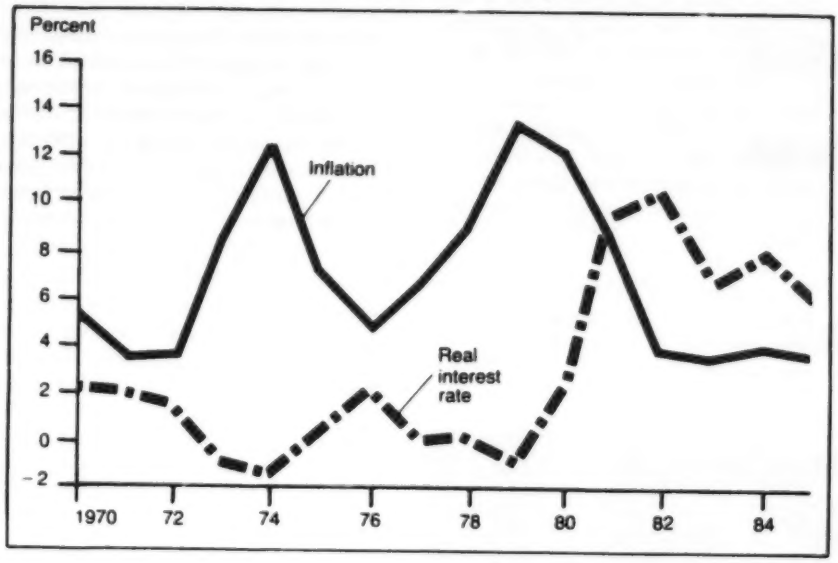
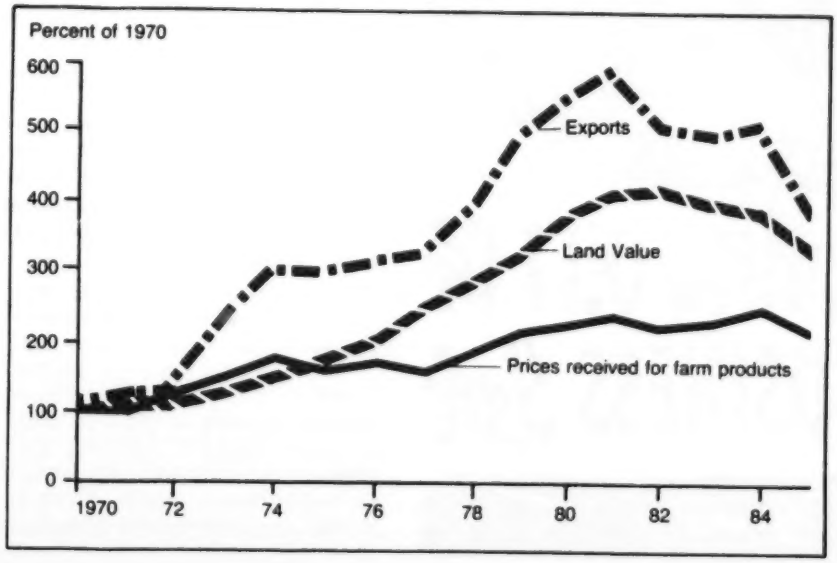


Figure 2
Major economic indicators in U.S. agriculture



On the cost side, as inflation was rapidly brought under control in the 1980's, real interest rates rose to unprecedented heights of 8-10 percent. Interest expenses more than doubled from the late 1970's to the early 1980's which reduced the profitability of farm production, and reinforced the expectation that returns to farmland would remain below real interest rates. As a result, investors felt farmland had become overpriced: hence the demand for farmland declined and prices began a steep decline. Since farmland makes up most of the value of farm assets (over 75 percent in 1981), the drop in farmland prices reduced the equity of many farmers, impairing their ability to renew existing loans or to borrow additional funds. The decline in farmland value combined with negative net cash flows to result in increasing numbers of farm foreclosures and forced sales, which in turn, have brought further downward pressures on farmland prices.

In the first article that follows, Fred Hines, Bernal Green, and Mindy Petrulis examine the geography of the farm problem and its effect on total economic activity in different areas and regions of the country. They discuss some of the most important factors influencing a rural area's vulnerability to stress in the farm sector. In the second, Larry Leistritz and others, using newly available data from North Dakota and Texas, look at the characteristics of the farmers in financial distress and the difficult adjustments they and their communities are likely to face. In the third, Daniel Milkove, Patrick Sullivan, and James Mikesell analyze how the farm crisis is affecting rural banks and their ability to serve the needs of the rural economy.

Fred K. Hines, Bernal L. Green, Mindy F. Petrulis

Vulnerability to Farm Problems Varies by Region

Farmers' financial problems translate to areawide distress, at least in the short run—more for some farming regions, States, and communities than others. The vulnerability of an area to the financial crisis in farming depends on the financial conditions of its farmers, its dependence on farming, especially on export-sensitive crops, and the strength of its nonfarm economy.

We discuss here these factors and show which areas are most affected by them.

The authors are economists in the Agriculture and Rural Economics Division's Agriculture and Community Linkages Section. This article is based on a speech delivered to USDA's Agricultural Outlook Conference, Washington, DC, December 1985.

Farm Debt-Load in Agricultural Heartland

One of the best indicators of a farmer's financial position is the amount of debt carried compared with the value of the farm assets. The value of farm assets, especially farmland, is determined by the profitability of farming. Falling farm prices and rising costs have sharply reduced the profitability of farming in recent years. As a result, the value of farmland has declined and farm debt as a proportion of assets has risen.

The proportion of farmers under severe financial stress, as indicated by high debt loads as of December 31, 1984, was highest in the Northern Plains, Lake States, and Corn Belt, according to USDA's Farm Costs and Returns Survey. In those regions, a fourth of the farms had debts amounting to 40 percent or more of the value of the farm's assets. The high proportion of financially stressed farms in those regions is explained in part by the large number of cash grain and dairy farmers who have been particularly hard hit by lower commodity prices or higher interest costs.

U.S. farmland values rose 37 percent during 1977-81, then declined by 19 percent during 1981-85. The Corn Belt, Northern Plains, and Lake States incurred losses of 33 percent or more (fig. 1). While nationwide percentage increases in farmland values during the earlier period tended to be somewhat uniform, declines since 1981 have been most dramatic in the major States of the Midwest.

In Iowa and Nebraska, the average value per acre of farmland dropped by more than 45 percent. There, as well as in Illinois, Indiana, Kansas, Missouri, and Ohio, declines in land values more than offset the gains of 1977-81. For instance, the average per acre value of farmland in the Corn Belt rose by $652 during 1977-81, and declined by $824 during 1981-85.

The increase in financial distress in the farm economy creates problems not only for farmers but also for farm-related businesses and rural communities. For example, rural banks and credit institutions in farm-dependent areas are faced with a growing volume of problem loans; local businesses suffer losses as farmers are unable to pay for goods and services purchased on credit; and rural communities that rely on farmland for their property tax base face budgetary problems and possible cuts in social services.

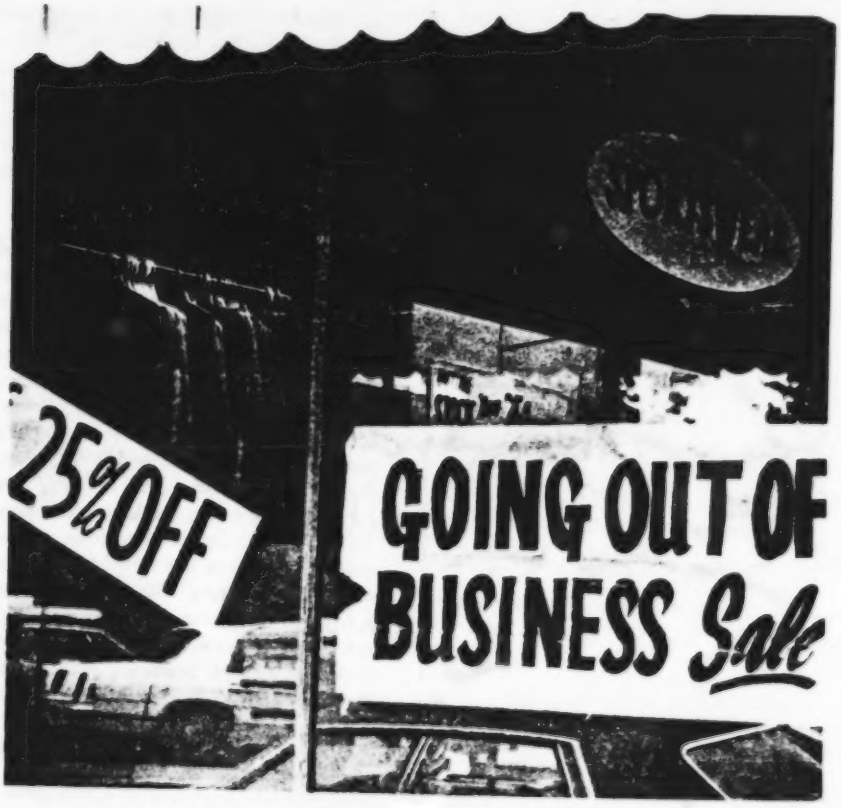


Photo by J. Norman Reid

About 60 percent of farm family income nationally comes from off-farm jobs. Poor farm finances can start a cycle that leads to less nonfarm business in nearby towns, layoffs, and further reductions in income for the farm family.

Farming a Major Industry in Northern Plains and Corn Belt

In 702 nonmetro counties (out of a total of 2,443), farm-related activities constituted at least 20 percent of all county earnings during the 1975-79 period (fig. 2).

These counties are hit harder by deteriorating economic conditions in agriculture than other counties. About a third of the Nation's 2.3 million farmers, and 13 percent of the nonmetro population live in these farm-dependent counties. In value terms, they produce a third of the Nation's farm products. Nearly half of these counties are located in the Northern Plains (185 counties) and the Corn Belt (134 counties). The economies of these farming areas are based upon a capital-intensive farming industry, significantly affected not only by soil productivity and weather, but also by interest rates, foreign exchange rates, and national agricultural policy.

Export Sensitive Commodities Concentrated in Corn Belt, Delta

Decreased foreign demand, partly due to increased production by other countries and the strong U.S. dollar, reduced commodity prices and farm income in the 1980's. States and communities that depend primarily on export-sensitive crops (corn, wheat, soybeans, and cotton) have suffered the most. Reduced exports translated into a slowdown in overall economic activity. This, in turn, led to a loss of jobs (both farm and nonfarm) and increased pressures for people to move out of the distressed areas.

Production of export-sensitive farm commodities is heavily concentrated in the Corn Belt and Delta States. In 1982, seven States produced 75 percent of the U.S. corn crop, 66 percent of the soybean crop, and 57 percent of the wheat crop. Iowa, Illinois, and Indiana produced 48 percent of U.S. corn and 40 percent of U.S. soybeans. Iowa, by itself, produced 20 percent of U.S. corn and 15 percent of the soybeans. Within these major producing States, communities with little economic activity outside the farm sec-

Figure 1
Change in farmland values by farm production region

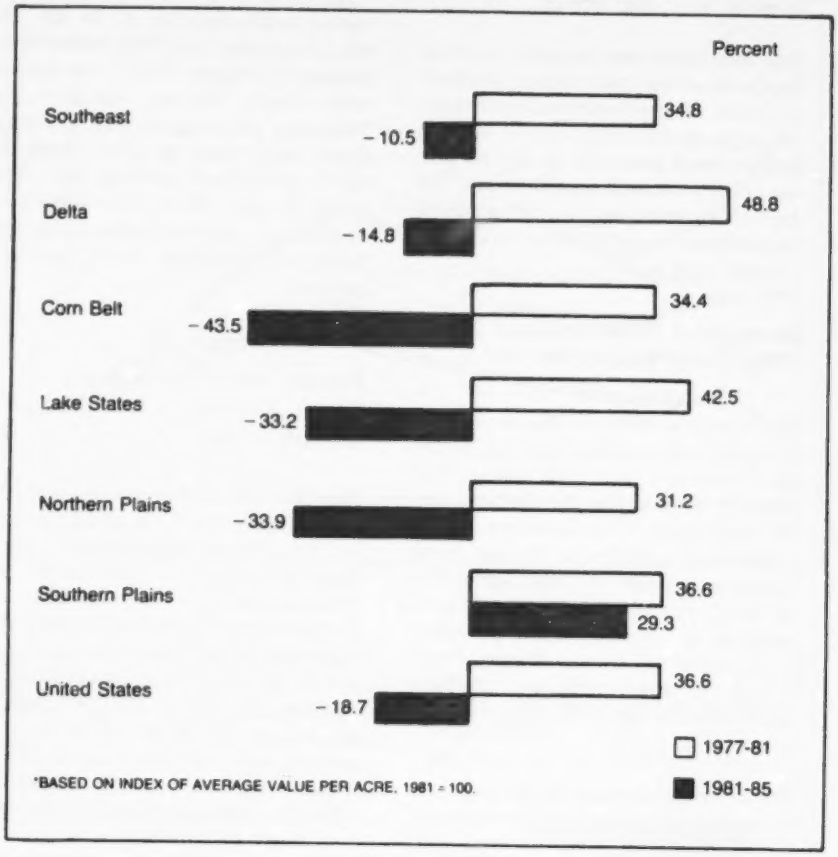
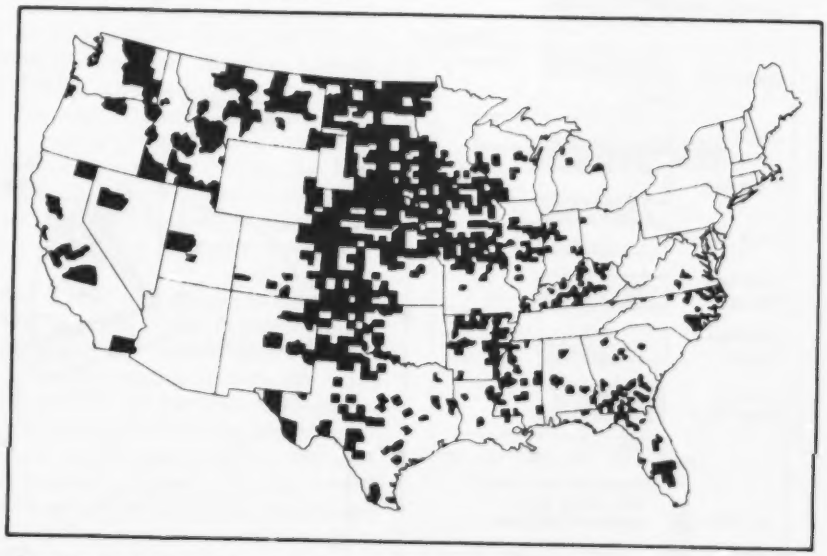


Figure 2
Farming-dependent counties



Counties are defined as those with 20 percent or more of labor and proprietary income from farming 1975-79

tor are hard pressed to find new options for economic growth.

The farm-dependent counties in these States face the most acute financial situation. Export-oriented commodities account for nearly half of all farm sales in these areas (fig. 3). By contrast, export-oriented commodities in the farm-dependent counties of the Southeast account for only about 10 percent of total farm sales.

Strength of Farm Linkages to Other Local Industries

Agriculture's effect on the local nonfarm economy depends not only on the size of the farm sector but also on how closely it is linked to the nonfarm sector. The impact is less where the role of production agriculture in the local economy is small. It is also less where farmers typically bypass local communities to purchase inputs or household items in more distant trade centers, or where most farm products and livestock leave the local area for processing.

For every 100 farm production workers (farm operators and hired farmworkers) in U.S. nonmetro areas, 50 additional workers are directly linked to agricultural inputs, processing, and marketing industries (fig. 4). In the 702 farm-dependent counties, these interindustry linkages within the agricultural complex are only half as strong. This weak link suggests that farmers in these areas look to other areas for many goods and services and these areas produce farm commodities requiring less local processing and marketing activities than farm products in general.

Strong Nonfarm Economy, Stable Population Essential to Survive Crisis

Economic stress stemming from problems in agriculture can be partially offset by off-farm employment. This is especially true for the small and medium-size farm operators who rely on the nonfarm economy for their principal source of employment and income. Farm families' dependence on income earned from off-farm jobs increased in the United States from an average of about 40 percent in 1960 to around 60 percent in 1981. Reliance on off-farm income obviously dampens the impact of farm-related stress.

But the importance of off-farm income varies considerably from one region to another. In the more densely populated regions with a relatively large number of small farms (the Northeast and the South), off-farm income accounted for 64 percent of total farm income in 1979. By contrast, off-farm income provided only 47 percent of farm family income in the sparsely settled Midwest and West.

In 1982, nearly 38 percent of all U.S. farm operators worked 200 days or more in off-farm jobs (fig. 5). But in many farm-dependent areas (particularly in the Northern Plains and Corn Belt), off-farm jobs are hard to find, or, if available, the demands of the farm operation prevent farm operators from taking them.

In farm-dependent counties of the Lake States, a low percentage of farmers have off-farm work, probably because most of these farmers specialize in dairy operations, which require full-time attention. In the farm-dependent counties of the Southeast, on the other hand, the proportion of farmers who worked off the farm was much higher than the national average. Nonfarm alternatives are more prevalent in the Southeast because of changes in the in-

Figure 3
Dependence on export-oriented commodities, 1982

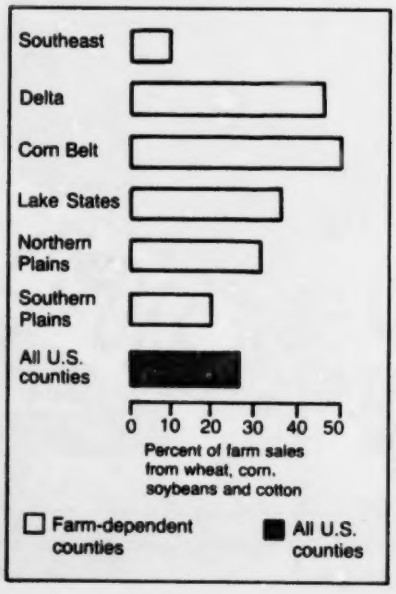


Figure 4
Agriculture-related employment, 1982

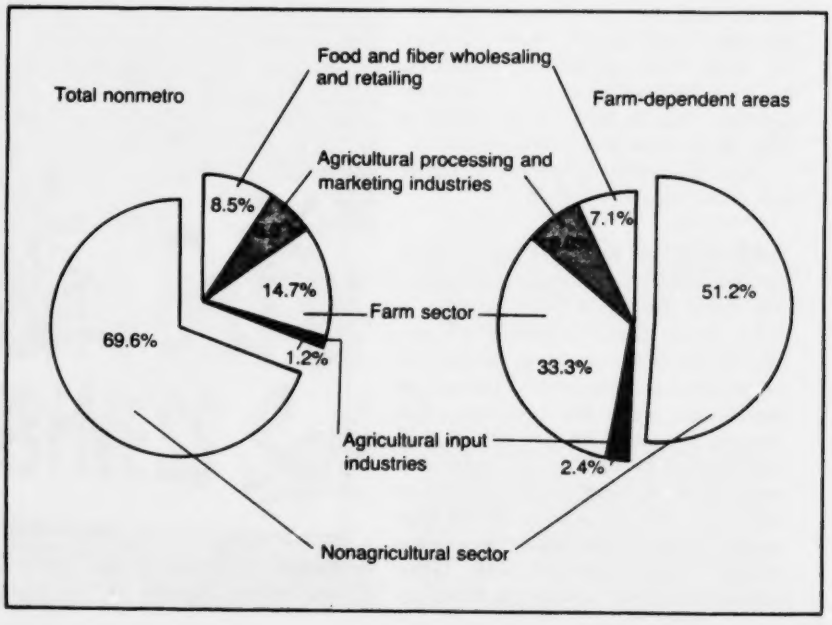


Figure 5
Dependence on off-farm employment, 1982

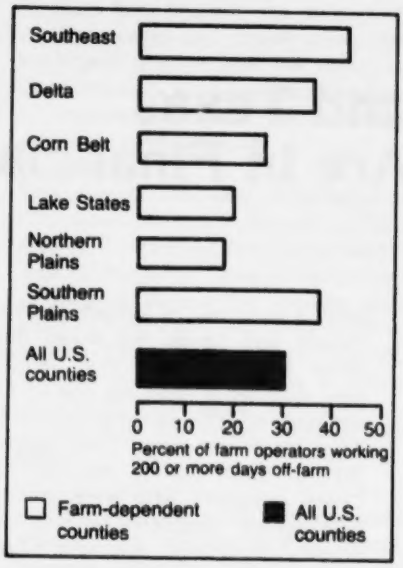
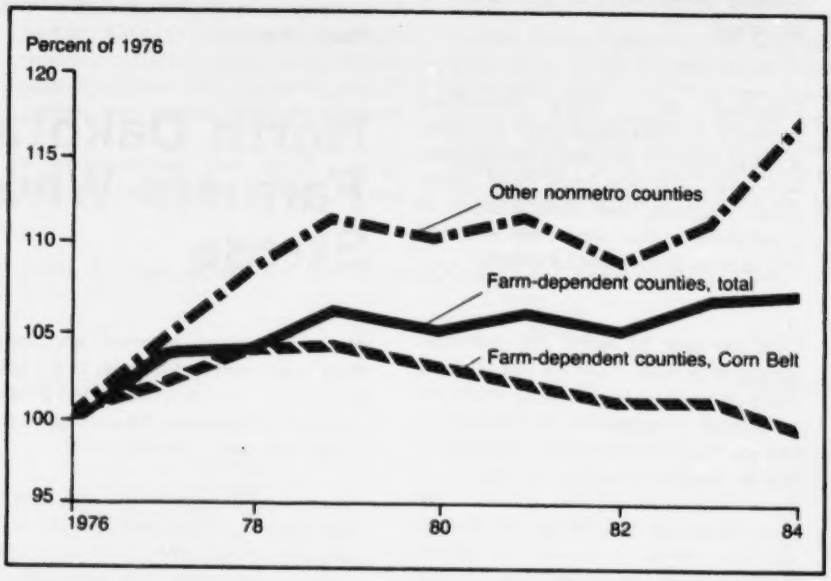


Figure 6
Overall employment growth



dustrial structure there during the 1960's and 1970's.

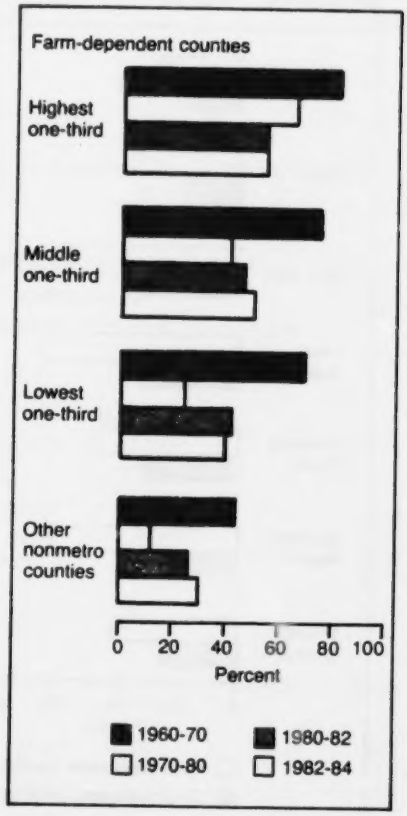
Large numbers of workers have moved out of farming because of the growth of attractive nonfarm jobs. But overall economic growth during the early 1980's was extremely weak in the farm-dependent areas. This is especially true, for example, in the farm-dependent counties of the Corn Belt, where overall employment has declined since 1979 (fig. 6). Thus economic revival in the farm-dependent areas has been stymied not only by the depressed farm sector but also by the slow recovery of manufacturing and other industries from the 1982 recession. Slow growth in nonfarm industries has made it difficult for farmers who rely on the nonfarm economy to keep their nonfarm jobs, and for workers displaced from farming and farm-related businesses to find new jobs.

A major result has been the continued loss of population in many farm-dependent areas. For instance, more than half of the Nation's counties most dependent on farming (the third with the highest proportion of earnings coming from farming) lost population during 1960-70, 1970-80, 1980-82, and 1982-84 periods (fig. 7). Even during the 1982-84 upturn, almost 60 percent of these counties lost population. A substantial proportion (40 percent) of the less farm-dependent counties also recorded population losses during 1982-84. By contrast, among counties not heavily dependent on farming ("other nonmetro counties" in fig. 7), less than 30 percent lost population during the 1970's and early 1980's.

Population change by region presents a more diverse picture (fig. 8). The Lake States have the highest proportion (73 percent) of farm-dependent counties with population losses; the Southeast registered one of the lowest (31 percent). Nevertheless, the general pattern appears to be that the farm-dependent counties have been and still are much more likely to lose population than other nonmetro counties.

How a rural area adjusts to lower commodity prices, lower farmland values, and higher real interest rates is affected by several factors, mainly the area's dependence on farming, its exposure to export-sensitive crops, the strength of its farm sector's links to the local agribusiness sector, and the overall strength of its economy. Rural communities that depend heavily on farming, like those in the Midwest and Delta, are affected the most. But even

Figure 7
Proportion of counties losing population

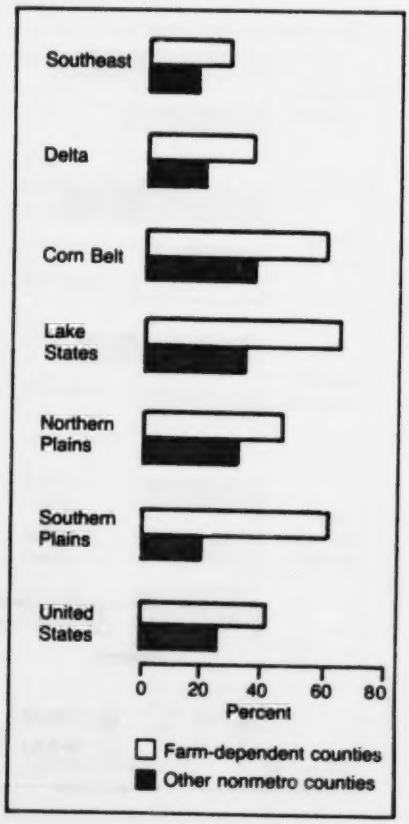


in the Midwest, effects will be uneven because dependence on agriculture is so varied.

Transition to a more diversified economy in farm-dependent counties is made difficult by their small population, their distance from most major urban markets, and their history of population decline, which has left them with a high proportion of elderly.

Over the past 30 years, the economic structure of rural America has become more diversified, significantly reducing its overall vulnerability to changes in natural resource markets, commodity prices, and farm conditions. Most rural areas' economic futures are now tied more to overall national growth than to any one sector's success or failure. That is much less true, however, for farm-dependent rural counties.

Figure 8
Proportion of counties losing population, 1982-84



F. Larry Leistritz, Brenda L. Ekstrom, Arlen G. Leholm, Steve H. Murdock, and Rita R. Hamm

North Dakota and Texas Farmers Who Are in Financial Stress

Many American farmers are facing their most severe financial crisis since the 1930's. An unprecedented proportion of farmers may be forced to quit within the next 5 years.

To see how farmers might adjust to the farm financial crisis and how those adjustments might affect farm-dependent rural communities, we conducted a telephone survey of farmers in North Dakota and Texas. We asked them about their finances, their families (age, number of children, and so on), and their off-farm working experience. After initial screening, 1,953 farmers (933 in North Dakota and 1,020 in Texas) remained who were younger than age 65, considered farming their primary occupation, and sold $2,500 or more of farm products in 1984.

Larry Leistritz is a professor and Brenda Ekstrom is a research assistant in the Department of Agricultural Economics and Arlen Leholm is an associate professor of Agricultural Economics—Extension, North Dakota State University, Fargo. Steve Murdock is a professor and Rita Hamm is a research associate in the Department of Rural Sociology, Texas A&M University, College Station. This article is based on a speech delivered at USDA's Agricultural Outlook Conference in Washington, DC, December 1985.

Good Farm Sales but Poor Bottom Line

About 72 percent of the North Dakota farms (table 1) had gross incomes in the range of $40,000 to $250,000, and 54 percent of Texas farms fell into this range. Although net cash farm income averaged $14,987 in North Dakota and $13,095 in Texas, 22 percent of farm operators in North Dakota and about

Table 1—Gross farm income and net cash farm income of North Dakota and Texas farmers, 1984

Item	North Dakota	Texas
	Dollars	
Gross farm income (average)	105,317	147,907
	Percent	
Distribution of income:		
Less than $40,000	21.1	30.5
$40,000 to $99,999	40.1	28.8
$100,000 to $249,999	31.6	25.5
$250,000 and over	7.2	15.1
	Dollars	
Net cash farm income (average)	14,897	13,095
	Percent	
Distribution of income:		
Zero or negative	22.2	49.8
$1 to $9,999	21.6	21.0
$10,000 to $19,999	24.9	9.2
$20,000 to $49,999	23.8	13.4
$50,000 and over	7.4	6.8

50 percent of those in Texas experienced zero or negative net cash farm income in 1984. Net cash farm income is gross farm income less gross cash farm expenses and depreciation. Net cash farm income does not take into account principal payments or changes in inventory of grain and livestock products during the year.

Respondents' estimates of the value of their total assets as of January 1, 1985, averaged $423,042 for North Dakota and $909,605 for Texas (table 2). Corresponding figures for average debt were $139,870 and $226,646. In other words, the average North Dakota operator was carrying about 33 cents of debt for every dollar of assets controlled, and the Texas operator, 31 cents.

At current prices, input costs, and asset values, most commercial farms begin to have difficulty meeting principal repayment commitments at debt-to-asset ratios (debt ratios) of about 40 percent. Above 70 percent, most farms have difficulty meeting even their interest payments and other current expenses. About 38 percent of the North Dakota producers and 24 percent of those in Texas had debt ratios above 40 percent (table 2).

To assess the relationship between the 1984 debt ratio and cash flow, we made two simulations using the survey data of North Dakota farm operators. In one, we subtracted family living expenses from total family income (that is, net cash farm and nonfarm income). This simulation provides a measure of the ability of farm families to meet immediate cash flow needs.[1]

In the second simulation, we subtracted both family living expenses and principal payments from total family income. This simulation measures the ability of farm families to meet both current expenses and to repay debt.

Forty percent of the North Dakota farm operators we surveyed had insufficient levels of total family income to cover family living expenses. Even among farm operators with no debt, about 20 percent appear to be having problems meeting cash flow needs; about 60 percent of farmers with debt ratios over 70 percent were having difficulty (table 3).

When we assessed their ability to repay principal payments as well (the second simulation), more than half of the operators surveyed had insufficient income to cover operating costs, family living expenses, and principal payments. About 90 percent of those with debt ratios over 70 percent could not cover these expenses. We have estimated that $375 million would have been needed in North Dakota alone to offset the shortfall experienced by

Table 2—Total assets and debt of North Dakota and Texas farmers, 1984

Item	North Dakota	Texas
Total assets (average)	$423,042	$909,605
	Percent	
Distribution of assets:		
$0 to $99,999	13.1	12.6
$100,000 to $249,999	31.2	26.2
$250,000 to $499,999	32.6	28.2
$500,000 to $999,999	18.2	21.2
$1,000,000 and over	4.9	11.8
Total debt (average)	$139,870	$226,646
	Percent	
Distribution of debt:		
No debt[1]	17.3	25.2
$1 to $49,999	25.2	28.7
$50,000 to $99,999	18.6	16.8
$100,000 to $249,999	23.9	17.3
$250,000 and over	15.0	12.0
Debt/asset ratio (average)	33.1	30.6
Distribution of debt/asset ratio:		
No debt[1]	16.7	21.4
1-40 percent	45.2	54.3
41-70 percent	23.4	13.9
71-100+ percent	14.7	10.4

[1]Percentages differ because of differing numbers of respondents to different questions.

Table 3—Cash flow analyses by debt/asset ratio, North Dakota

Category	Debt/asset ratio				Total
	No debt	1%-40%	41%-70%	71%-100%	
Total farm family income less family living expenses (simulated)					
Average	$30,023	$13,243	$701	$-5,258	$10,102
			Percent		
Distribution:					
Negative	19.8	35.9	53.6	60.1	41.0
0 to $19,999	35.4	37.0	35.2	32.1	35.6
$20,000 and over	44.9	27.1	11.2	7.8	23.5
Total farm family income less family living expense and principal payments (simulated)					
Average	$30,023	$4,909	$-19,510	$-31,496	$-2,075
			Percent		
Distribution:					
Negative	19.8	51.2	80.5	89.1	58.2
0 to $19,999	35.4	28.6	15.1	9.3	23.9
$20,000 and over	44.9	20.3	4.4	1.6	18.0

[1]If a respondent's estimates of family living expenses were not given or were unrealistically low, we used the following values: $6,000 for a single individual, $8,000 for a two-person household, and $12,000 for a household of three or more.

these farm operators in 1984; that amount is two-thirds the value of North Dakota's entire annual budget.

Young Farmers Have Highest Debt Levels

A high debt ratio is strongly associated with younger farmers. Of the operators with no debt, about 60 percent are over age 55 and 82 percent are over 45. Of those with debt ratios over 70 percent, 67 percent are under age 45. Similarly, of the operators with no debt, 70 percent began farming before 1959 while about 64 percent of those with debt ratios over 70 percent began farming after 1969.[2] Other surveys of Texas and Ohio farmers support the conclusion that financial stress is falling more heavily on younger farmers.

The more highly leveraged farmers also have above-average numbers of school-age children. If farm families from the more highly leveraged groups are forced to leave their rural communities, school enrollments could drop substantially.

Many Farmers Lack Nonfarm Work Experience

We asked the respondents about their off-farm employment for two reasons. Off-farm employment can supplement inadequate farm income. And if they must leave the farm, off-farm employment experience (by the operator and spouse) may affect the ease (or difficulty) they have in making the transition to the nonfarm labor market.

About 25 percent of the North Dakota farm operators we surveyed held a nonfarm job in 1984 (fig. 1). Sixteen percent of operators with no debt worked off the farm compared with 36 percent of those with debt ratios over 70 percent. In addition to the operators who worked off the farm in 1984, another 10 percent of the North Dakota farmers said they planned to seek off-farm work in 1985 (23 percent of those with debt ratios over 70 percent). Similar patterns of off-farm employment were noted for farm operators' spouses and for operators and spouses in Texas.

The experience of North Dakota farm operators in full-time nonfarm work is rather limited; 43 percent of all operators we surveyed had never worked in a full-time nonfarm job. Among the more highly leveraged groups, the degree of off-farm work experience was greater, but more than 60 percent of the operators in the two most highly leveraged groups had 3 years or less of nonfarm work experience.

Implications

Farm operators have several options for dealing with financial stress:

Figure 1
Highly leveraged farm families more likely to work off the farm

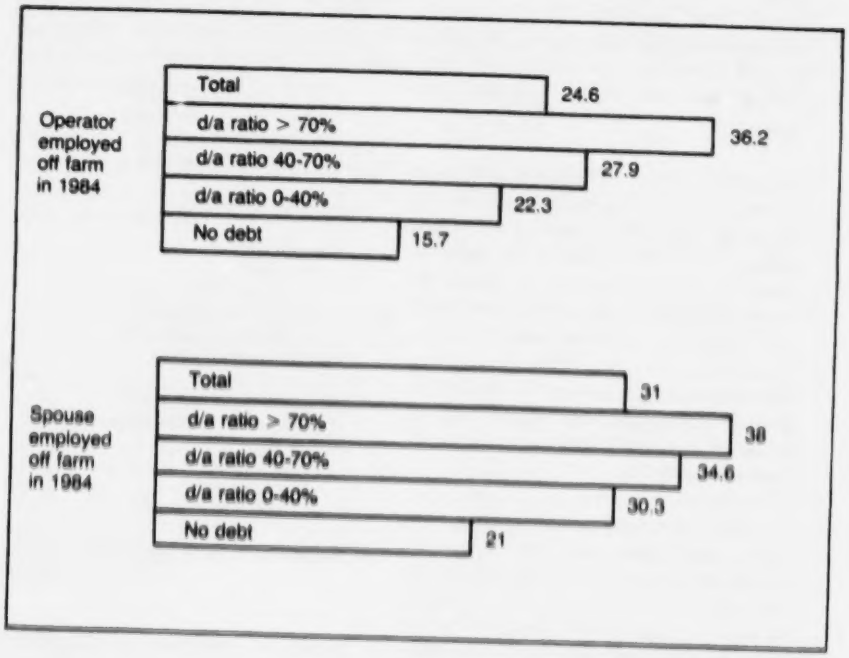


Table 4—Age of respondent and year started farming by debt/asset ratio, North Dakota, 1984

Category	Debt/asset ratio				Total
	No debt	1%-40%	41%-70%	71%-100%	
	Percent				
Age of respondent:					
Less than 25	2.7	2.3	3.4	5.4	3.1
25-34	8.2	17.1	29.3	33.1	20.8
35-44	6.8	24.8	30.3	28.5	23.6
45-54	21.8	29.3	24.0	20.0	25.5
55-64	60.5	26.6	13.0	13.1	27.0
Year started farming:					
1980 and after	4.8	7.5	9.6	16.9	8.9
1970-1979	14.3	26.6	39.4	46.9	30.5
1960-1969	10.9	23.6	26.4	15.4	20.9
1950-1959	29.9	25.3	18.8	11.5	22.5
Before 1950	40.1	17.1	5.8	9.2	17.1

[2]It should be noted, however, that approximately a fifth of North Dakota farm operators in every age category had zero or negative net cash farm income in 1984.

restructuring their debts, restructuring their assets, working off the farm, managing more efficiently. Yet, liquidating the farm operation and moving to nonfarm employment may be the only viable alternative for many highly leveraged operators.

Farm families forced to seek nonfarm employment will likely face extensive adjustment problems. They may be forced to relocate to larger urban areas, even to other States, in search of employment. And they may find that their skills are not highly marketable in urban labor markets. For such farm families, grants, loans, and other programs to cover some of their costs of training, job search, and relocation could be very helpful.

The effect of farm failures on a rural community's private and public sectors will depend in part on whether the liquidations reduce the number of farms in the area and on whether the displaced farm families leave the community or remain. In rural areas close to larger urban places, the only farms left may be the very large commercial farms or the very small farms whose operators live on farms but work elsewhere: what economists call a bimodal distribution. In areas where commercial farming predominates and there are few off-farm job opportunities, the primary effect of current financial conditions may be to accelerate farm consolidation.

Even though an area experiences a substantial decline in farm numbers, its population base could be maintained if other jobs are created. Displaced farm families generally prefer to remain in their community.

In many agriculturally dependent areas, however, nonfarm job opportunities are unlikely to grow as the impacts of reduced agricultural income are felt by the agribusiness sector and other local trade and service firms. In North Dakota, for example, taxable retail sales (measured in constant dollars) fell 20 percent from 1979-84, while towns under 10,000 population experienced a 31-percent decline in sales.

Unless alternative job opportunities can be developed, a substantial decline in farm numbers could significantly affect such public services as primary and secondary schools. The fact that a high percentage of the most highly leveraged farmers are younger than 45 years and have above-average numbers of school-age children suggests that the effects on schools could be disproportionately large.

For all public services, local officials are likely to be confronted with the problem of providing services with a revenue base that may be static or even declining. Expanded economic development programs to attract industry to rural areas could benefit displaced farmers, and also provide support for the economy and service structure of rural communities.

Policy responses currently being proposed focus on measures to assist financially troubled farmers to remain in farming. Although such measures are needed, they fail to address the fact that a substantial percentage of farmers cannot continue to farm. Programs to facilitate the transition of farmers to alternative employment and to assist rural communities in coping with the impacts of agricultural restructuring should be implemented as well.

"In many agriculturally dependent areas, however, nonfarm job opportunities are unlikely to grow as the impacts of reduced agricultural income are felt by the agribusiness sector and other local trade and service firms."

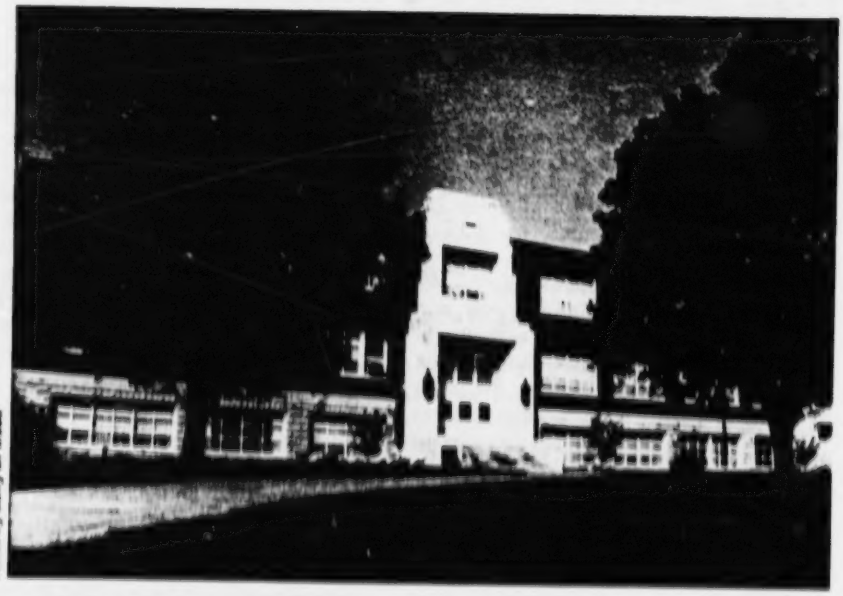


Photo by Larry E. Wood

The most highly leveraged farmers tend to be young with an above-average number of school-age children. If they have to give up their farms and leave the community, school enrollments could drop substantially.

Daniel L. Milkove, Patrick J. Sullivan, and James J. Mikesell

Deteriorating Farm Finances Affect Rural Banks and Communities

Financial problems in the agricultural sector are eventually transmitted to farm lenders. As cash flow problems cause farmers and farm-related businesses to fall behind on loan payments, the quality of lenders' loan portfolios deteriorates. Lenders must set aside reserves to cover actual and anticipated loan losses. These and other adjustments by agricultural lenders to cope with their problem loans can affect credit availability for the community at large.

Bank financial problems caused 69 agricultural banks to fail last year, and some predict even more agricultural bank failures this year. While bank failures dramatically portray the problems of farm lenders, the failures generally are not as devastating to local banking services as many fear. In the past, most failed rural banks reopened almost immediately under new ownership.

A more widespread problem for rural areas may be the growing number of agricultural banks with serious financial problems. As banks adjust their lending decisions to deal with weaknesses identified by bank regulators, "marginally qualified" borrowers are likely to be denied credit. This may force some farmers into bankruptcy, but it will also reduce credit to nonfarm businesses, putting rural communities in agricultural areas of the country at a disadvantage in attracting new businesses and holding existing firms. Depending on the size and structure of the local banking system, less credit availability could dampen the growth potential of the local nonfarm economy, just when off-farm employment is needed by members of foundering family farms and by people displaced from agriculture.

Agricultural communities in unit-banking and limited-branching States have local banking systems heavily involved in agricultural loans. Furthermore, since small agricultural banks depend on local borrowers, these banks will likely make every effort to service the credit needs of farmers despite their cash flow problems. This may help some farmers who would otherwise be denied credit, but could depress the community's economy if local banks support agriculture at the expense of the nonfarm sector.

Agricultural communities with branches of a large bank or affiliates of a large multibank holding company are likely to find themselves in a better situation. Creditworthy borrowers should continue to have access to credit despite the financial condition of the agricultural sector.

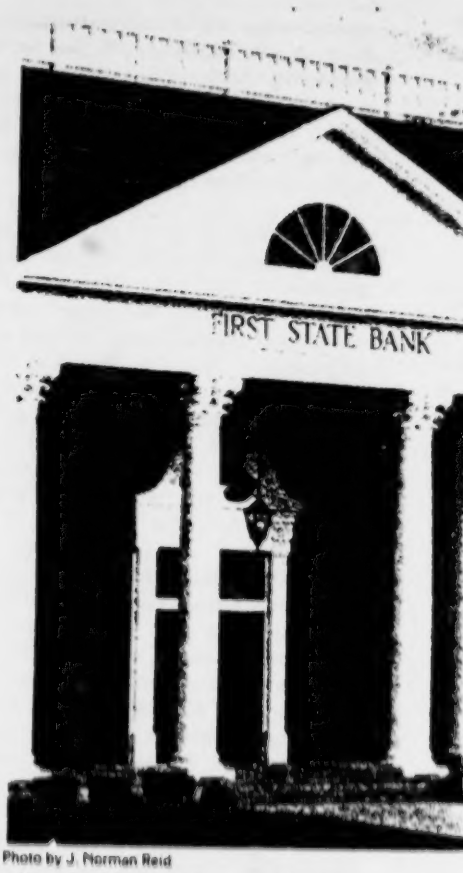


Photo by J. Norman Reid

They hold only about a third of total farm debt, but commercial banks serve a wide variety of credit needs for both farm and nonfarm rural businesses.

Agricultural Banks Feel Pinch of Farm Financial Stress

As a group, rural banks, and even agricultural banks (which comprised over half of the commercial banks headquartered in rural America), continued to add to their capital reserves through the end of 1984. But several signs indicate that financial problems among farmers hurt some agricultural banks. For example, some banks increased their capital only at the expense of lower profits caused by setting aside more funds for possible loan losses.

Table 1—Potentially vulnerable commercial banks[1]

Type of bank	Dec. 1982	June 1983	Dec. 1983	June 1984	Dec. 1984	June 1985
			Number of banks			
Agricultural banks	94	96	133	195	239	302
Other banks	365	323	320	276	375	387
Total	459	419	453	471	614	689

[1]Banks that have problem loans (those past due 30 days or more and still accruing interest), nonaccruing loans, and renegotiated loans greater than capital.

Source: Federal Reserve Board of Governors.

The authors are financial economists with the Financial Markets Section of ERS's Agriculture and Rural Economics Division. This article is based on a speech delivered at USDA's Agricultural Outlook Conference in Washington, DC, December 1985.

Much of the large increase in annual bank failures since 1981 has been among agricultural lenders. The 118 commercial banks that failed in 1985 is the most since the Depression; a majority were agricultural banks. Nonetheless, the failed banks were generally small, they were often replaced immediately via reopening as a new bank or takeover by an existing bank, and most customers had their deposits fully insured by the Federal Deposit Insurance Corporation (see "Rural Bank Failures Not A Big Problem — So Far" elsewhere in this issue).

Banks weakened by the number of borrowers having trouble repaying their loans may represent more of a longrun problem for rural communities. Some of these banks will eventually fail; others will work out their problems. The relevant question is what happens to bank service during the adjustment process.

Between June 30, 1983, and June 30, 1985, the number of agricultural banks at which past due and nonperforming loans exceeded bank capital increased by 215 percent. Over the same period, "vulnerable" nonagricultural banks increased by only 20 percent (table 1). Attempts by some agricultural banks to cover bad loans may reduce the availability of credit to existing customers and to new businesses. In areas with a high incidence of weakened banks, a lack of local credit may hurt growth.

Farm financial problems will probably not threaten the overall stability of the commercial banking system. Agricultural loans and bank holdings of Farm Credit System securities together amount to only 3 or 4 percent of the banking system's total assets. And recent legislation (The Food Security Act of 1985 and The Farm Credit Amendments Act of 1985) will provide a breathing spell for the farm sector to make necessary adjustments. Nonetheless, many farmers and agricultural banks will have problems—and some will go out of business—during the next several years. Continuing farm financial stress could weaken the banking systems serving several States. Most commercial bank lending (not just that to farmers) in Iowa, North Dakota, and Nebraska is by agricul-

Farm Lenders and Risky Agricultural Loans

Banks are not the only agricultural lenders, nor even the largest. The major institutions involved in agricultural lending are the Farm Credit System, the commercial banking system, and the Farmers Home Administration. These lenders held over two-thirds of total farm debt outstanding at the end of 1984 ($212.9 billion), with the remaining farm debt held by individuals, life insurance companies, the Commodity Credit Corporation, and others. We concentrate on banks in this article because their importance to rural communities extends well beyond their loans to farmers.

Although many banks make loans to farmers, and farming is pursued in most areas of the country, we focus on two subgroups—agricultural banks and agriculturally dependent counties. The Federal Reserve Board categorizes a bank as "agricultural" if it has a higher than average concentration of agricultural loans within its loan portfolio (curently this includes banks with 17 percent or more of their loan portfolios in farm real estate and production loans).

Agricultural counties are the 702 rural counties where 20 percent or more of total laborer and proprietary income was derived from farming during 1975-79 (see map in Hines article, p. 11).

These counties were home to approximately a third of U.S. farmers and accounted for an equal share of agricultural sales in 1982. Banks headquartered in these counties on average made 45 percent of their loans for agricultural purposes; thus agricultural counties are likely to include many of the communities hit by bank problems originating in the farm sector.

Most farmers start having difficulties meeting their debt commitments at debt/asset ratios of around 0.4; that is, when their debt reaches 40 percent of the value of their assets. Therefore, debt owed by farm operators with negative net cash flows (insufficient income to pay current production expenses, debt repayment, and family living expenses) and with debt/asset ratios of 0.4 or more is considered to be at risk. Banks hold about $15 billion of farm loans (amounting to 45 percent of their farm operator loan portfolios) in this risky category.

Over $7 billion of this is owed by farm operators whose debts are more than 70 percent of the value of their assets (debt/asset ratio of 0.7); these loans are rated very risky. Barring some form of government intervention, or unexpected improvements in commodity prices, many farmers in this group will be forced to leave farming within a year or two. Lenders to farmers who default on their loan obligations can sell the assets (land, crops, and machinery) pledged as collateral for the foreclosed loans but, with market prices for such items currently depressed, lenders are unlikely to recover the full value of the outstanding loan balances.

Heavy losses by any of the major farm lenders can hurt rural communities, but only commercial banks serve a wide range of credit needs for farm and nonfarm rural businesses alike. The Farm Credit System (FCS) lends almost exclusively for agricultural purposes. The FCS has suffered large loan losses and, as a result, has increased the interest rates it charges. Many fear that this will turn potential borrowers and financially sound farmer customers away from FCS in search of less costly credit. A reduced level of lending by the FCS (or the Farmers Home Administration) implies fewer "outside" funds flowing into rural communities. This could indirectly affect rural economies if local banks do not expand their farm loans, or if they do so at the expense of nonfarm borrowers.

tural banks (fig. 1). The amount of credit supplied by banks in these and several other States is very sensitive to developments in the agricultural sector.

For many rural businesses, local credit availability is more important than credit conditions at the State or national levels. Deteriorating loan quality will probably hurt banking systems serving local economies highly dependent upon agriculture as a source of income. While these communities are often in the Midwest, some are in other regions of the country.

Banks Serving Agricultural Counties

Banks less dependent on farming and banks owned by large banking organizations (with loans throughout the State or Nation) can minimize the effects on rural communities from problems in the farm sector. While over two-thirds of all rural counties are served by at least one nonagricultural bank, that is the case for only a third of the agricultural counties (table 2). And agricultural counties are less likely to contain branches of large banks, or banks owned by large multibank holding companies (firms owning two or more legally independent banks). In fact, about 40 percent of these counties contain offices of fewer than three banks. Because of the relatively few banks per county, local credit could be significantly curtailed by the current financial condition of agriculture in these counties if even one local bank has to adjust its loan portfolio.

A commercial bank can take several steps to make up for deteriorating quality in its agricultural loans. If the bank serves an area characterized by a highly diversified economy with unmet loan demand by the nonfarm sector, it can shift its loan activity away from financially strapped farmers toward nonfarm businesses. Banks with branches throughout the State or banks that are part of a multibank holding company are likely to find it easiest to shift loanable funds away from the agricultural sector. Unit banks, on the other hand, are more likely to serve local markets only. The viability of a small unit bank is tied to the fortunes of local borrowers. If most local borrowers are farmers with financial problems, as might be expected in many agricultural counties, unit banks may make every legal effort to continue servicing farm credit needs despite their borrowers' cash flow problems.

Banks with the option of shifting loanable funds away from agriculture might decide not to, because turning down farm loans could force some farmers into bankruptcy and convert problem loans into actual losses. Thus, commercial banks may extend additional credit to farmers with cash flow problems, hoping that their financial plight will improve enough to repay their loans. But extending additional credit to risky borrowers reduces the overall quality of a bank's loan portfolio. Bank regulations then require that the bank increase its loan loss reserves, which will reduce the bank's overall ability to lend to businesses, both farm and nonfarm. Depending upon local market conditions, banks serving agricultural areas of the country may also raise their interest rates, or collateral requirements, or both, to all their loan customers so as to recoup the higher

Figure 1
States Highly Dependent on Agricultural Banks

Agricultural banks account for over 50 percent of total bank loans

Agricultural banks account for 20 to 50 percent of total bank loans

Source: Federal Reserve Board of Governors, *Report of Condition and Income, June 1985.*

Table 2—Local banking systems

Banking system includes—	Type of county		
	Metro	Nonmetro	Agricultural
		Percent	
A nonagricultural bank	98	68	33
A large bank[1]	60	23	11
A large MBHC bank[2]	71	34	25
Either a large bank or a large MBHC bank	79	41	27

[1]Either the headquarters or a branch office of a bank with total assets of $500 million or more.

[2]An affiliate of a multibank holding company with combined bank assets of $500 million or more.

Source: Calculated from the Summary of Deposits file, Federal Deposit Insurance Corporation and the Report of Condition and Report of Income file, Federal Reserve Board of Governors.

As rural banks adjust to weakened farm portfolios, credit to other rural sectors may be reduced, dampening growth of the local nonfarm economy.

costs of serving risky farm borrowers and to minimize the possibility of additional problem loans.

If communities are served by diversified, competitive bank structures, problems of individual banks will have less effect on local credit availability. But communities with many banks, even nonagricultural banks, may still be vulnerable if the local economy is heavily influenced by the farm sector. This seems likely in many of the agriculturally dependent communities since farmers' financial problems tend to affect the nonfarm sector and to depress the local economy: as of June 1985, the proportion of nonagricultural loans classified as nonperforming was 3.8 percent for banks headquartered in agricultural counties compared with only 2.6 percent for banks headquartered elsewhere. Even nonagricultural lenders are likely to find their deposit base growing slowly, if at all, and more losses on their nonfarm loans to local businesses.

The presence of a branch of a large bank, or a bank that is a member of a large multibank holding company, might better indicate that the local banking system can withstand prolonged agricultural stress. But only 27 percent of agricultural counties are served by such a bank (table 2). Thus, most agricultural counties lack direct service by larger, more diversified financial institutions. Of course, bank operating policy is an important factor in determining how helpful "outsider" banks are in stabilizing credit conditions in agricultural counties. Branches of large banks should have the resources available to continue extending credit; whether the banks choose to extend the credit is another matter.

It is not surprising that agricultural loans make up a high percentage of total loans made by banks with offices in agricultural counties. Banks serving agricultural counties are typically small agricultural banks, though large regional and money center banks have offices in some agricultural counties in statewide branching States. Banks serving agricultural counties average 45 percent of loan volume for agricultural purposes (higher in unit banking states and lower in States that permit statewide bank branching) compared with 11 percent for the average bank with no office in an agricultural county.

For many agricultural counties, heavy agricultural lending makes local banking systems vulnerable to deteriorating financial conditions in the farm sector.

The ability of local banking systems in unit banking and limited branching States to continue to provide credit within agricultural counties may be hampered by the small size of banks and by the lack of larger, more diversified financial institutions.

Prospects Grimmest for Midwest

The depressed farm economy has already taken its toll on many banks serving agriculturally dependent counties. The 1985 failure rate for banks headquartered in agricultural counties was more than double that for banks headquartered elsewhere. Banks headquartered in agricultural counties reported an average 5.6 percent of their agricultural production loans as nonperforming in June 1985; banks headquartered elsewhere reported only 3.3 percent of their agricultural production loans as nonperforming. Above 8 percent of agricultural production loans were nonperforming at over 25 percent of banks headquartered in agricultural counties. This last group of banks must make adjustments that could curtail their lending.

New guidelines by the Federal Reserve Board establish a minimum level for primary capital at 5.5 percent of total bank assets. Based on our simulations, if all commercial banks had written off 10 percent of the value of their agricultural loan portfolio during 1985, roughly 2 percent would be in imminent danger of failure, with primary capital falling below 2 percent of assets.

Over 9 percent of commercial banks, serving 913 counties (297 of which are agricultural counties), would have had primary capital below 5.5 percent of total assets. In four States—Nebraska, Idaho, South Dakota, and Iowa—a 10-percent write-off of farm debt would have left more than 20 percent of commercial banks with inadequate capital. Among banks headquartered in agricultural counties, 4 percent would be in imminent danger of failure and nearly 21 percent would have inadequate levels of primary capital.

While the above example is based on a very high write-off rate by historical standards, it may not be unrealistic for some Midwestern banks with large loan concentrations in cash grain farming. And since a majority of the banks identified as being vulnerable by these simulations were located in the Midwest, the results may match up fairly closely with the number of banks that will have to make adjustments to cover farm loan losses in the near future. On the brighter side, the simulations indicate that problems associated with the farm economy are likely to affect banks in relatively few counties outside the Midwest.

Bank Regulators Ease Rules

Several actions are now underway or being actively considered to ease the

adjustments taking place in the farm sector. In March of this year, the Federal Reserve Board and other agencies that regulate banks jointly announced plans to relax capital restrictions for banks believed to have a reasonable chance of regaining their economic health within a 5-year period.

Regulators also modified rules governing the handling of restructured loans (terms changed by the bank to make it easier for the borrower to repay the loan) in a way designed to help banks maintain their lending levels. Congress was debating stronger legislation at the same time. And the administration placed additional funds in the farm operating loan program so that the Farmers Home Administration could maintain its role as lender of last resort during the spring planting season.

Most observers agree that the above changes and last year's legislation (the Food Security Act of 1985 and restructuring of the Farm Credit System) will provide some breathing room to rural economies and financial markets. But it is almost as certain that the situation will remain difficult for several years. Some farmers and farm banks are beyond help and will not make it, and farm income is not expected to improve in the near future. Also, communities highly dependent on agriculture will face the task of diversifying their economies at a time when the necessary credit is difficult to obtain.

For Additional Reading . . .

Emanuel Melichar. *Farm Financial Experience and Agricultural Banking Experience*. Paper presented at the National Governors Association Conference on Agricultural Finance, January 1986.

U.S. Department of Agriculture, Economic Research Service. *Agriculture Land Values and Markets Outlook and Situation Report*, CD-90. August 1985.

U.S. Department of Agriculture, Economic Research Service. *Agricultural Finance: Outlook and Situation Report*, AFO-26. March 1986.

Margaret E. Dewar

The Role of Analysis in Economic Development: Lessons from Minnesota's Iron Range

States may not be getting their money's worth from development programs formulated without benefit of economic analysis. Minnesota's programs for its Iron Range, located in the northeastern part of the State, illustrate how analysis can get sacrificed in political tug-of-wars. The resulting programs may overlook projects with a good chance of success or encourage projects that will not achieve economic development goals.

Minnesota's 1983 legislature passed a series of measures that greatly expanded the State's involvement in economic development. These included an enterprise zone program, incentives for small businesses, subsidies for employing certain types of workers, tourism promotion, and an office to develop international trade. Those new measures are on top of Minnesota's Iron Range fund; this fund alone has provided more than $35 million for business ventures since mid-1982.

In 1984, Virginia created the Rural Virginia Development Foundation to provide capital and training programs for new and expanding small businesses.

Also in 1984, Pennsylvanians approved a $190-million economic development bond referendum that provides for State loans and grants to help employees take over plants threatened with closings, to assist small business "incubators" (which provide space and services for new businesses), to provide startup capital, and for other activities.

These examples demonstrate that States are devoting more resources to influencing economic development. But they may be getting shortchanged. Lawmakers often do not know what contributes most to economic development, yet are reluctant to stipulate that development programs use economic analysis to help find the most promising directions and the projects with the best chance of success.

Careful analysis can lead to more effective use of public funds.

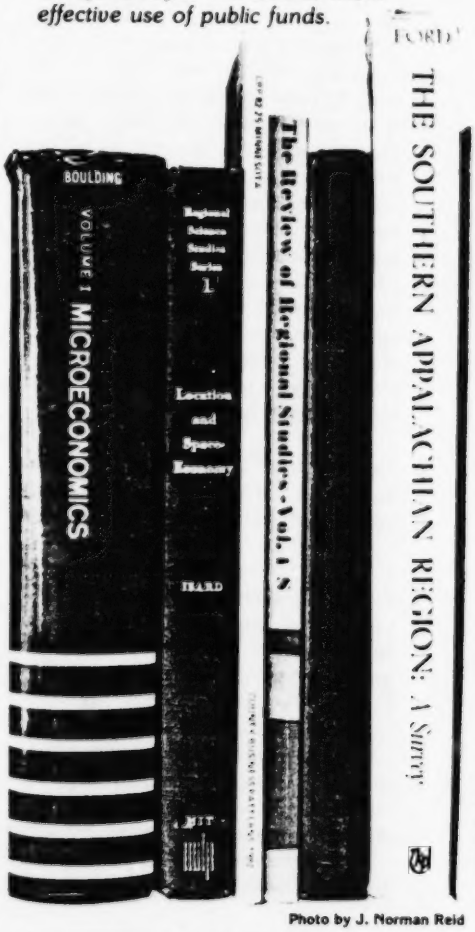


Photo by J. Norman Reid

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The Institute's Industry Vitalization program provided partial funding for this research.

A lack of economic analysis can lead to programs that fail. Without analysis, the programs can neglect to finance jobs and projects where public support might have made a crucial difference, they can support failing businesses that should not have received public support, and, most important, they can use public funds to stimulate growth that would have occurred anyway.

The Iron Range Resources and Rehabilitation Board (IRRRB) in northeast Minnesota demonstrates why States often do without economic analysis. The reasons were primarily political in that good analysis takes time and in this case, as in others, the program was conceived during a crisis with the principals looking for quick returns.

The IRRRB encourages new industries on Minnesota's Iron Range, a region of about 190,000 people where the unemployment rate reached 33 percent in spring 1983. Table 1 summarizes the 44-year history of the IRRRB's involvement in economic development. The economic protection fund, which became available in 1982, is the core of the economic development effort. Most of the IRRRB's funds have gone to tourism and to projects that encourage use of indigenous energy resources. Other funds have aided manufacturing and manufacturing service establishments, especially those related to wood products.

The board's members are five State senators, five State representatives, and the commissioner of the State Department of Natural Resources. Nearly all the legislators represent districts in the "taconite tax relief area," Minnesota's Iron Range and its surrounding region (see map).

Analysis Ignored in Selecting Economic Development Priorities

The 1982 economic protection fund legislation stipulated that the economic development efforts promote the development of minerals, alternative energy sources, forestry, small business, and tourism to create productive, permanent, skilled employment. The IRRRB's long-range plan targeted energy development and alternative fuels, timber and wood products, tourism and resort renovation, and

Table 1—History of IRRRB economic development program

Year of legislation	Program	Purpose
1941	IRRRB established	To develop the use of the region's natural resources and to provide for vocational training and rehabilitation of residents of distressed counties when the commissioner of the IRRRB determines that "distress and unemployment" exist because of limited use of natural resources.
1977	Taconite Environmental Protection Fund	For "reclaiming, restoring, and enhancing" areas damaged by mining or production of low-grade iron ore (taconite) and for promoting economic development.
1977	Northeast Minnesota Economic Protection Fund — Set up to receive tax revenues	To address "the severe economic dislocations and widespread unemployment that result" when the mining and processing of taconite are drastically reduced; "to be devoted to economic rehabilitation and diversification of industrial enterprises."
1982	— Some funds available through a technical advisory committee and a trust fund board	
1983	— Funds placed under the IRRRB	

Source: *Minnesota Statutes Annotated*, Sections 298.22, 298.233, 298.292; *Session Laws of the State of Minnesota for 1982*, Ch. 46-F 96.

Photo by Minneapolis Star and Tribune

Rasjo Torv, a Swedish company, received $1 million in financing and a lease of State-owned land to produce peat for energy and to document the costs using the peat extruder shown here. No economic development analysis preceded the decision to provide funds; such thinking suggests that other industries might have produced more economic growth in the region.

PAPERS THE REGIONAL SCIENCE ASSOCIATION XXVI

What Good Is Economic Development Analysis?

Economic and social analysis can contribute to more successful area development programs. Assessing priorities and projects helps the community to achieve job creation goals. "Priority" analysis leads to an understanding of how a regional economy functions to make decisions about the direction of policy.

First, priority analysis must address the nature of the economy: Why does this region grow? Why do some firms locate in this region while others do not? What is the comparative advantage of the region?

Second, it must address the best ways government can intervene in the regional economy: What is the "opportunity cost" (forgone income and employment growth associated with funding one project rather than another or with funding no project at all) of investing in one industry rather than another? What can government do that the private sector will not do otherwise? What are the benefits and costs of a given approach? Who will benefit, and who will be hurt? For instance, an analysis of the problems, strengths, and needs of rural Virginia economies, undertaken by the Virginia Rural Development and Capacity Building Council, formed the basis for the Rural Virginia Development Foundation.

"Project" analysis can assess specific proposals for funding, ideally within a general strategy based upon an economic development framework. This type of analysis addresses questions such as: Can this business make a profit, or will it survive only as long as it receives subsidies? Would this enterprise make the same expansion or location decision without government intervention, or will the public money make a difference in the firm's behavior? Exactly how much financing should this firm receive to achieve economic development goals?

Although many agencies have the tools for this type of analysis, they are frequently applied only for assessing a business's financial viability. For example, an evaluation of Minnesota's business-financing programs showed that loans too often went for business expansion that would compete with other businesses in the same market and would therefore lead to the contraction of those other businesses and little if any growth in the economy.

Economic development officials usually count all jobs associated with a project as jobs that would not have existed otherwise. As a result, they view many projects as successful; but if they finance some projects for which the opportunity costs exceed the benefits, their work may actually constrain growth in a region. The goal of good economic development analysis is to identify projects where benefits exceed costs.

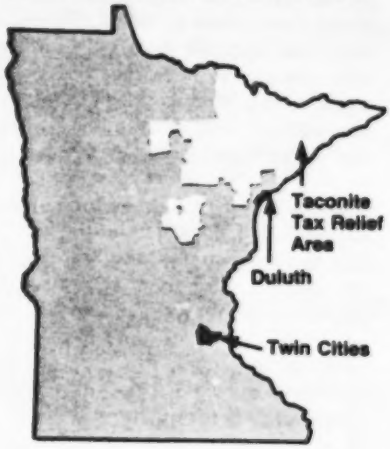
Few studies have been done so far on the role of analysis in political decisionmaking. Without such research, it is hard to evaluate the extent to which economic analysis can influence political decisions. The following studies give further background:

George H. Borts, "The Greenhouse Program: Is it Economically Feasible and Justifiable?" Comment in *New England Journal of Business and Economics*, vol. 10, Fall 1984, pp. 29-34.

John E. Brandl, "Distilling Frenzy from Academic Scribbling," *Journal of Policy Analysis and Management*, vol. 4, 1985, pp. 344-353.

Margaret E. Dewar, "Development Analysis Confronts Politics: Industrial Policy on Minnesota's Iron Range," *Journal of the American Planning Association*, vol. 52, Summer 1986 (forthcoming).

The IRRRB can use its economic development funds in the Taconite Tax Relief Area



mining and natural resource development, with attention directed to business diversification and new technology.

These priorities emerged from a process that excluded economic development analysis. The Iron Range legislators negotiated the priorities with Governor Albert Quie's staff. The sectors they chose were much the same as those advocated by Rudy Perpich, the gubernatorial candidate from the Iron Range. They decided that natural resources were the area's major asset. Indeed, lumber and iron ore had been the region's mainstays since the late 19th century. Basing economic development on the area's natural resources was also an IRRRB tradition. Small business and "technologically innovative" businesses were selected because "we knew most jobs are created in small businesses," the leader of the Iron Range delegation, Senator Douglas Johnson, said. The interest in high-technology industry reflected a Statewide effort to encourage such industry.

Use of economic analysis in the IRRRB's development efforts would have identified several major projects that would not have led to net growth in jobs and income for the region. Analysis would have shown, for example, that the IRRRB should not have encouraged energy production as a source of economic growth either by mining and processing peat or by subsidizing the production and use of

"Use of economic analysis in IRRRB's development efforts would have identified several major projects that would not have led to net growth in jobs and income for the region."

wood chips and pellets for fuel. The region could grow more by continuing to import fuel and by putting its resources into more competitive activities. For another example, while creating major tourist attractions might help the region's resort owners, analysis would have shown that the projects chosen by IRRRB probably held less promise than others for attracting additional visitors.

On the other hand, some of the IRRRB's efforts were constructive ways to try to encourage growth. For instance, the IRRRB's studies of the market conditions for new industries provide information that may help firms decide to locate in the area.

This process suggests what may happen in other States that aim economic development programs at specific industrial sectors. The emphasis could be on reaching agreements quickly rather than on using analysis to find the best way to encourage the growth of jobs and income in the region. The political process of reaching agreement may rely on assumptions that are not necessarily true about the nature of regional economic development.

The IRRRB experience offers two examples of the weakness of such a process. First, those negotiating the priorities assumed that past sources of regional economic growth will also be future strengths. Because markets, technology, and other conditions change, however, extrapolation from the past is often uncertain. Second, the legislators and the Governor's staff assumed that widely held beliefs about sources of regional growth—in this case, small businesses and high-tech industries—applied to the Iron Range. Such simple answers are rarely true for a particular region.

The legislators, gubernatorial candidate Perpich, and Governor Quie's staff did not use an economic development framework to identify promising sectors for growth, perhaps because they lacked the background or were not convinced that analysis was worthwhile. But the process was not entirely inadvertent. The legislators and Perpich wanted action, not further reflection. As Senator Johnson said in explaining the 1982 legislative proposal to other members of the IRRRB, "We would not allow any of this money to be used for more studies. The Iron Range has been studied to death."

Although using analysis does not necessarily mean doing studies, it would have meant getting advice from people with analytic backgrounds or hiring people with such backgrounds for the IRRRB staff. Those people would have needed time to formulate the best ways to encourage long-term development.

Other legislators might normally have pressed for more analysis, but the emergency conditions under which the legislature considered the bill made that impossible. Governor Quie called the legislature into a 1-day special session "to immediately address this severe unemployment situation" on the Iron Range.

The IRRRB Opposed Institutionalized Analysis of Projects for Economic Development

The Iron Range legislators wanted the IRRRB to handle the economic protection fund. Instead, the 1982 legislation set up two bodies to allocate the funds: a technical advisory committee of experts to review each loan application and a trust fund board of citizens, city and county officials, and legislators to approve projects deemed feasible by the technical advisory committee. As soon as the newly elected Governor, Rudy Perpich, took office and the new legislative session began, the Iron Range delegation successfully transferred authority over the fund to the IRRRB and eliminated the technical advisory committee and the trust fund board.

Wisconsin Extension Helps Community Economic Development

The University of Wisconsin-Extension has launched a program to help communities undertake the kind of economic analysis argued for in this article.

The program offers four 4-hour sessions conducted by Extension agents to help local leaders think through what can be done, evaluate their community's economic situation, and develop a plan of action to create jobs and income in the community.

Each session concentrates on a different aspect of local economic analysis. And the program shows how local leaders can also use a survey to draw the community at large into development activities.

For more information about the program, call Ron Shaffer (608) 262-9485 or Glen Pulver (608) 262-4963.

Shaffer and Pulver (and Peter Korsching) also collaborated on a manual to assist in the community economic analysis: *Community Economic Analysis: A How - To Manual*, developed in conjunction with the University of Wisconsin-Extension and the North Central Regional Center for Rural Development. For a copy, call Peter Korsching (515) 294-8320.

With the collapse of the iron ore mining industry, jobs became virtually the only important issue. The legislators and, by 1983, newly elected Governor Perpich needed to respond to the region's severe unemployment problems.

The Iron Range's political leaders would have been pleased with long-term economic development; but in the short run, any action to try to solve employment problems was probably as important as its actual impact on the region's economy. The legislators and the Governor wanted visible, newsworthy projects to create jobs, and they wanted them quickly. The technical advisory committee would have interfered, as any analytic institution would, in part because the visible projects were not necessarily technically or financially feasible and because analysis takes time. The legislators and the Governor needed to control the money to make sure that financing went for visible projects, quickly and without criticism from experts, and that the people knew they were responsible for the efforts to produce jobs in the region.

Other legislators could have voted against the changes sought by the Iron Range delegation, but with few exceptions they did not. Most legislators had more important issues at hand than the operation of an economic development fund for another area of the State. Many legislators thought that local officials (in this case, the Iron Range delegation) should be able to administer the economic protection fund as they wished because the fund came from regional production taxes paid by the taconite companies in lieu of property taxes. Legislators voted for or against the bill not because of economic development issues but because of the way in which the issue was posed and how their vote would affect other legislation they cared about.

Other States Should Insist on Economic Development Analysis for Their Programs

The IRRRB, the Governor's staff, and the State legislature did not draw on a general framework for thinking about economic development in setting priorities, and the IRRRB convinced the legislature to eliminate outside expert analysis of specific projects. This scenario can repeat itself in other States. Political leaders will often want to control the decisions on highly visible programs that involve large amounts of money, potentially affecting many of their constituents in important ways. But such programs are more likely to be successful in encouraging growth in jobs and income if analysis helps in setting the priorities and selecting the projects.

"The political process of reaching agreement may rely on assumptions that are not necessarily true about the nature of regional economic development."

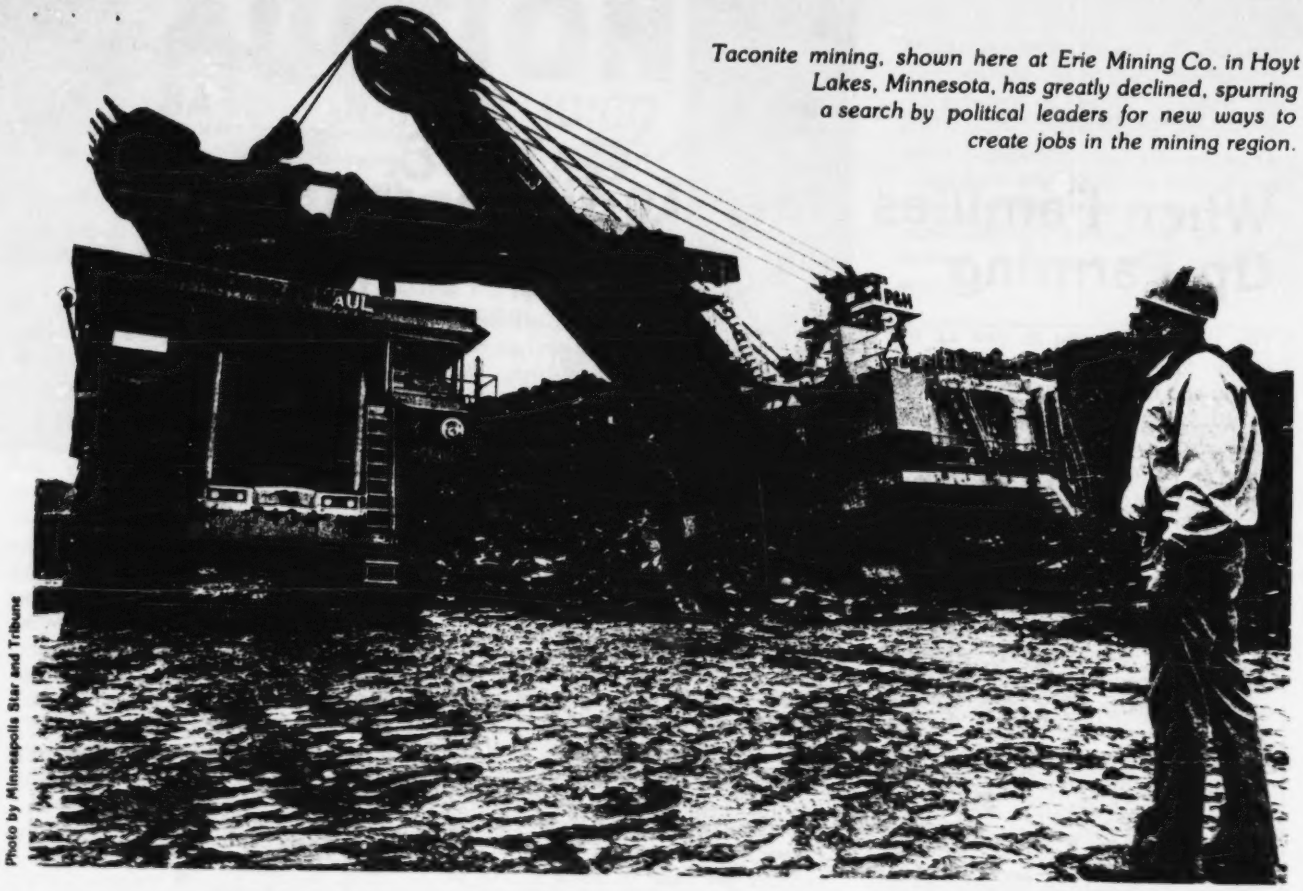
The Minnesota experience suggests how other States could structure economic development programs to make use of analysis more likely.

Programs should involve statewide interests from both political parties. One way of ensuring that is to finance economic development programs through an appropriation from general funds, not through a property tax, a severance tax, or any other kind of tax that a region can claim as its own. Legislators are less likely to cede control of the use of general revenue to a regional group, and their constituents are likely to be more concerned about the use of their tax money. The legislative appropriations process offers legislators, citizens, and interest groups from outside the region the opportunity to look closely at the operation of the programs each year and to design the programs so that they will be more likely to achieve development goals.

Interests in the rest of the State and in both political parties should take part not only in funding but also in implementing the program, even if the program benefits only one part of a State. The greater diversity of pressures and interests might make regional legislators less inclined to neglect long-term economic development goals in the interest of short-term political ones, helping to create an environment where analysis plays a role. Members of one party have an interest in assuring that members of another do not spend State funds for parochial reasons. Besides legislators, the group administering the funds should include local elected officials, citizens from a variety of backgrounds with interest in the economy, and experts on regional development. The drawback to such an approach is that with statewide participation, program funds may be dispersed over too many areas, with no chance of being effective anywhere.

These financial and administrative arrangements do not assure that economic development goals will take precedence or that analysis will be applied. Regional interests will still have a stake in controlling the funds, and legislators from other areas will have greater interest in programs of most concern to their own districts. Members of different political parties may serve each others' political aims rather than economic development goals. Therefore, other conditions in the policy environment need to reinforce attention to economic development results and encourage the use of analysis.

Outside independent analyses of the problems of a regional economy and of the best ways to deal with its difficulties can call attention to the effectiveness of the economic development effort as well as put pressure on administrators to offer their own analyses or to draw on others'. Outside analyses can exert pressure on administrators by influencing public views of programs and by providing more information for program opponents to use in



Taconite mining, shown here at Erie Mining Co. in Hoyt Lakes, Minnesota, has greatly declined, spurring a search by political leaders for new ways to create jobs in the mining region.

Photo by Minneapolis Star and Tribune

influencing other legislators and the public.

Outside analyses can come from several sources:

- Legislation could require a State or legislative audit agency to make periodic evaluations to look at the administration of the funds and at the success of the economic development programs in achieving growth and employment goals. The drawback to this approach is that a legislature frequently determines the work agenda of an audit agency. Unless the legislature calls for examination of development programs, the agency will not take on the job. An agency that is part of the State government is under pressure from groups for and against programs to come to conclusions that support their positions.

- Press coverage of State economic development programs might enhance public awareness and thereby pressure program administrators to show results. Announcements of funding for individual large development projects normally get media coverage, but that coverage often lacks mention of any analysis of the program. The drawback to this approach is that reporters often have little time for anything other than straight news coverage, and economic development is often only one of the issues they cover. Nor do the media necessarily believe that their readers or viewers are interested enough to merit repeated stories on such topics.

- University faculty could critique development programs. The disinterested perspective of faculty might encourage program administrators to design their approaches to achieve economic development goals.

  The drawback to this approach is that universities reward faculty most for research that adds to knowledge in a discipline. Repeated studies assessing the same types of problems, while helpful for assessing the success of development programs, would be hard to justify in many universities.

All of these reviews can help educate elected officials and citizens about how development occurs and the trade-offs in opportunity costs. Better public understanding of how economic development can lead to growth may make programs not based on analysis less politically popular.

But even with such institutional arrangements to encourage the use of analysis in State economic development efforts, whoever has the greatest interest will continue to jockey for more discretion without interference from the analytic process. As pressures on one side erode the use of analysis in decisionmaking, other forces need to continue to demand that analysis be required in formulating long-term economic development policy.

Judith Bortner Heffernan and William D. Heffernan

When Families Have To Give Up Farming

The shock of having to give up the family farm affects both the farm family and their community. This look at 40 Missouri farm families shows what they went through in giving up their farms and how they've fared since.

Losing the family farm affects the social and emotional well-being of farm families as profoundly as it affects their financial well-being. In a survey we conducted of Missouri families forced to give up their farm, we found nearly every aspect of their lives thrown into turmoil. With the high levels of stress reported by such families, no one should be surprised that they have difficulty adjusting to their changed circumstances.

Of some surprise to us, though, was the lack of support reportedly provided these families by their community. While support from parents and children could generally be counted on, that was not always the case. And not even the church gave the support the people expected.

Farm communities are often small, homogeneous, have a widely dispersed population, and consequently, few economic alternatives. If you have to give up your farm, the reverberations extend beyond the farm family.

Aside from buying less merchandise from other businesses, for example, bankrupt farmers leave many unpaid debts behind. A recent study in Iowa found that farmers typically leave $77,000 of unsecured debt when they are forced to quit farming.

Over half of the farmers we interviewed who had borrowed from commercial banks and Farmers Home Administration said they had not repaid those debts. Over half of those who had borrowed from agribusiness firms, like seed and implement dealers, said they had not repaid those debts. Debts to relatives and other individuals, landlords, Production Credit Associations, and Federal Land Banks had also not been repaid.

The public sector is affected, too. Declining values of farmland as well as other property erode local tax bases. Local officials are often faced with declining populations of taxpayers and shrinking public revenues at the same time that the costs of running county governments are increasing.

With reduced tax bases, localities must cut back services, often just when such services are most in demand. For example, USDA-Extension field staff throughout rural America report that financially pressed farm families are dropping their medical insurance and trying to meet their medical needs through county health departments. Yet such services are among those being cut. One rural Missouri county had 10 persons employed in the local health department 2 years ago and now has only two, a public health nurse and her secretary, both part-time.

Hard Times Financially and Emotionally

To see more specifically how displaced farm families are coping, we interviewed, in the spring of 1985, 40 Missouri families who had been forced out of farming because of financial reasons. We asked them if they had experienced any of 15 common reactions to stress in the course of losing their farm and if they continued to experience any such reactions (table 1). Nearly all indicated that they had become depressed in the process of being forced out of farming and the levels of depression continue quite high for many.

Depression can take many forms. The stress-related reactions listed in table 1 are considered characteristics of depression. Each of these reactions has special consequences for family and community life.

Increased drinking, for example, is widely known to be a cause and a consequence of family conflict and suffering. It is also often associated with physical aggressiveness. Care givers in urban areas near agricultural communities report that runaway and abused farm children are showing up in increasing numbers at homes for runaway children. Hotlines report more cases of spouse abuse in farming areas. While we did not specifically ask about family abuse, the responses to questions on physical aggressiveness led us to infer that there had been a significant rise.

Sleep disorders, and the restlessness and agitation associated with inadequate sleep, take their toll as well. Becoming confused and unable to think or respond logically are part of the same package.

Confused and illogically thinking persons are unable to deal adequately with the complex decisions facing families who are losing their farms. These decisions include whether to declare bankruptcy; if so, under which bankruptcy chapter to file, whether to voluntarily sell property to settle debt, figuring out one's tax liability, and so forth. All of these decisions, none very pleasant, demand a clear thinking person capable of dealing with complex legal definitions and issues. Yet, these decisions must be considered in the emotional context of frightened and angry people who have no idea where they will live or how they will earn a living. Frustration, high levels of anger, and even violent outbursts against family or acquaintances can almost be predicted in such situations.

Withdrawing from family and friends, experiencing feelings of worthlessness, and maintaining periods of silence present especially difficult problems for families and communities. With approximately two-thirds of the respon-

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Photo by J. Norman Reid

A sign of farm stress, but not necessarily leading to an unhappy ending. Some dispossessed farmers said the quality of their lives improved after they left the farm.

dents indicating that they lived through such reactions, it is clear that family communication breaks down at a time when it is critically needed. People who feel worthless, maintain silence, and withdraw are not exerting leadership in their families and are not making the necessary decisions. Such persons are unable to give each other the emotional support they need. Plans for the future go unmade amid deepening despair. Almost half (45 percent) of the families said they became less active than they had been in community groups, organizations, and clubs.

Another consequence of this withdrawal is the difficulty it presents for those who want to help. Most assistance programs, government as well as private, require individuals to take the initiative and request assistance. Clergy tell us that they will help families in any way they can if the families will just tell them they need help. Ashamed, unwilling, or unable to verbalize their needs, many of these hurting rural families, by withdrawing, hinder the effectiveness of programs that can help them. Only five families (12 percent) of the 40 indicated that any church, government agency, or other organization had offered or provided them any assistance as they were leaving farming. The assistance provided included educational grants, a farewell party, and stress reduction seminars.

Table 1—Former farm families report high levels of stress

Stress-related reaction	Have experienced		Continue to experience	
	Men	Women	Men	Women
	Percent of respondents			
Became depressed	97	100	56	72
Withdrew from family and friends	97	66	56	41
Became nauseated, lost appetite	49	47	18	34
Would awake from sleep and be unable to return to sleep	77	53	41	38
Experienced feelings of worthlessness	74	69	49	41
Restless, unable to concentrate, agitated	72	81	41	38
Did anything to keep busy	67	41	46	31
Increased smoking	23	25	18	22
Increased drinking	18	12	10	6
Increased fear of things, people	38	31	18	25
Became more physically aggressive	49	31	26	9
Experienced great changes in moods, from low to high and back	67	81	36	47
Became confused	54	31	31	19
Became unable to think or respond logically	31	34	13	19
Became unusually silent for periods of time	62	53	44	28

About the Study

We selected a county in north central Missouri to be the focus of our study of farm families leaving farming. We selected that county because it was one of the 17 in the State that combined to produce 50 percent of Missouri's agricultural products and because it was over 50 miles from a metropolitan area, a distance typically considered to be about the upper range for commuting to off-farm jobs.

We compiled a list of all families who had quit farming between January 1, 1980, and January 1, 1985. Names were sought from the Extension Service, the Federal Land Bank, Production Credit Association, Soil Conservation Service, Agricultural Stabilization and Conservation Service, and Farmers Home Administration, as well as auctioneers and private bankers in the county. The interviewed families were asked to identify others who had quit farming in the 5-year period.

The final list of eligible families consisted of 46 families, 42 of whom were interviewed. Two families who had left the area were not traceable. One family was not interviewed because of very severe recent illness. Only one family refused to be interviewed, citing a desire to be helpful, but an unwillingness to relive what had been a painful and traumatic experience for them. Of the 42 interviewed, two had retired, citing age, health, and financial reasons for doing so. For purposes of our present analysis, those two families were not included. Therefore, the analysis is based on 40 families.

To some, the only apparent out is suicide. During the interviews, a number of the men hinted that they had considered suicide. In 1984, 71 Missouri farmers were officially listed as suicides. And in Missouri, farmers are twice as likely as nonfarmers to take their own lives.

Where Do You Turn for Help?

For people going through such turmoil, social support is one of the best mechanisms for coping. Yet, the extent of such support, as reported in our interviews, is very mixed. Most people (87 percent) said there had been someone they could talk to about their situation who seemed to understand and be concerned. But that leaves more than 1 in 10 who said they had no one to talk to. And after further inquiry, 66 percent said they had tried to talk with someone about their situation, but found the person lacking in concern and understanding.

Who gave these families the best support? Most indicated that their parents, their children, other relatives, close friends, neighbors, and the community had either actively expressed support for them or had been somewhat supportive (table 2). More than half felt that their church (in which they were active participants) had not been supportive: 44 percent said their church had condemned them; another 11 percent said their church had ignored them. Lenders did better; more than half of those interviewed said their lenders had given them at least some support.

The lack of support from their church was especially painful for the families. They had expected their church to be more understanding and supportive. Many said they had not asked for support from their church, but nonetheless were disappointed and felt rejected that it had not been offered.

The lack of unanimous support from parents and children reflects how the crisis affects even those not actively involved in farming. In some cases, the aging parents of the couple losing the farm had sold their land to their son and his wife and had built their retirement home on a corner of the property. But since the parents' home was still in the farm deed, when the son and his family lost the farm, the parents lost their home as well. In many cases, the couple losing the farm had adolescent children active in 4-H and Future Farmers of America. Many of these youths had been preparing and planning for years to run the family farm. The loss of the farm thus takes three generations off the land.

Another factor complicating support for families by their kin is that many of their relatives are simply incredulous about what is happening. In some interviews, families reported having been told by relatives that what they were saying was happening could not possibly happen in America. Therefore, concluded the relatives, "It is not happening to you!"

When asked, of all the help they had received, what had been of the most assistance, the farm families most often identified types of social support—"moral, emotional support," "being listened to and talked to," and "being encouraged." Help with the sale, money when needed, and more time to repay the loan were also mentioned.

Starting Over

To see how families are able to reestablish their lives once they are out of farming, we asked the families we interviewed about their current lives. Their answers suggest that while life continued to be difficult for many, a significant number were on the way to remaking their lives. They had moved on to new towns and found new, satisfactory jobs. Some had returned to school.

Photo by Rick Marker

The Spencer Rural Support Group, one of 11 in northwest Iowa sponsored by the Northwest Iowa Mental Health Clinic, exemplifies the kind of assistance needed by farmers in financial difficulty.

Twelve of the 40 respondents had moved from the county, five to adjacent counties, two to other counties in Missouri, and five to other States. Of those who left the county, all but one (a laborer) were in occupations classified as professional, managerial, sales, or technical, or were college students. All but one of these families had moved to a town or city.

Twenty-eight of the 40 families continue to live in the county. Of those, five had moved into town. Of the remaining 23 families, 15 continued to live on the farm, but the lender held title to the land and could force them out at any time. The remaining eight families owned their house (and possibly some land) free and clear, were in the process of buying a house (and possibly some land), or had moved in with a relative.

Table 2—Who gave most support to failing farmers?

Person or group	No support at all	Not much support	Somewhat supportive	Actively expressed support
	Percent of respondents			
Parents	5	11	16	68
Children	4	0	21	74
Other relatives	8	5	39	47
Closest friends	10	3	36	51
Neighbors	12	18	30	40
Church	44	11	25	19
Lenders	23	20	28	25
Community as a whole	13	15	44	28

Three of those who continued living in the farming area had continued the skilled jobs they held while farming. For the remaining 20, the picture was not as encouraging. Three had found work they felt good about and liked. Two were enrolled in college. Five were essentially unemployed, and the remaining 10 were, at best, underemployed.

Sixty-three percent of the families said their financial condition was "worse" or "much worse" than it was in January 1980, while 28 percent said their financial condition was better. They were a little more positive regarding their quality of life: 40 percent said it was better. A few noted that the anxiety and uncertainty over farming were now largely over. Seventy-nine percent of the families expected to be better off in 5 years.

Eighteen percent of the families reported their current income was inadequate. Thirty-eight percent were able to meet necessities only. Another 35 percent met necessities and had a little left over. Eight percent could afford about everything they wanted and perhaps even save a little money.

The farm crisis is clearly causing pain and suffering among the families who lose their farms. Historically, rural communities have provided strong social support to members of the community experiencing difficult times. Communities must continue that tradition and reach out to these families. Special efforts need to be made on the part of social and community organizations to include financially and emotionally stressed families in their social activities. Some communities have already established social support groups where men, women, and youths meet to share their feelings and concerns. Others are placing more emphasis on traditional organizations and networks, making an additional effort to involve all members of the community, expecially those who are seen as "high-risk families." While not the total answer, such activities will help those leaving farming through the period of extreme stress as they try to adjust to the new realities of their lives. These seem to be the kinds of assistance the displaced farm families told us were most helpful.

Characteristics of the Farm Families . . .

Of the families interviewed, 75 percent of the husbands and 84 percent of the wives were less than 45 years of age. Ninety percent of the husbands (38 percent of the wives) had grown up on a farm, and 59 percent gave that as the major reason why they started farming.

Thirty percent of the men and 35 percent of the women had more than 12 years of schooling. Only 8 percent of the men and 5 percent of the women had less than 12 years of schooling.

The families had an average of 2.9 children with an average of 2.1 children still living at home. Ninety percent of the families still had at least one child at home.

Ninety-two percent of the men and women reported being members of a church, with 42 percent of the men and 58 percent of the women attending at least once a week.

. . . And Their Farms

Sixty-eight percent of the families started farming after 1965 and half started farming after 1970. Fifty-eight percent began farming by renting all their land and over half began farming with another family member, usually their parents.

The median size of farming operation when the farm was the largest was about 500 acres, with about 200 acres owned and 300 acres rented. The largest farming operation was 2,150 acres. The largest acreage owned was 537 acres.

Fifty-seven percent of the farmers received most of their farm income from corn, wheat, sorghum, and soybeans; about a third received most of their income from hogs. A few farmers received their major income from beef, and 6 percent received about equal income from crops and livestock.

Ninety-two percent of the families indicated they had intended for the farm to provide most of the family's income. But even when the farm was at its largest size a third of the men and half of the women worked off the farm. A fourth of the women contributed at least half of the family's total income from a nonfarm job. The farm was the only source of family income for only 34 percent of the families.

During the last year of farming, 60 percent of the men and 57 percent of the women worked off the farm. The farm remained the only source of family income for 20 percent of the families.

Only 18 percent of the farmers had bought some major new equipment when they started farming or since 1975, whichever was more recent. Eighty-seven percent said they had bought used equipment and 63 percent had borrowed some equipment from a relative. Almost 30 percent had borrowed some equipment from a neighbor.

For 44 percent, 1979 was their best year. Only 19 percent listed a year in the 1980's as their best year, reflecting both bad weather conditions and the depressed condition of the agricultural economy. No one listed 1982 or 1983.

Gerald Schluter and William Edmondson

How To Tell How Important Agriculture Is to Your State

More than one in five U.S. jobs stems from agriculture. Some State economies rely on agriculture even more than that. Here are several different ways to judge a State's dependence on agriculture. They can help assess how a State can weather economic storms like depressed farm income and floods of cheap textile imports.

What does an agriculturally dependent State look like? Does it have wide stretches of rangeland and wheat fields like Montana? Or picturesque dairy farms like Vermont? Or does it have colorful irrigated valleys like California or Arizona? Or miles of corn and soybean fields like Iowa? These are all visible evidence of a viable agriculture in those States, but they do not indicate the degree of agriculture's importance to the State's economy. That depends not only on the size of agriculture in the State, but also on the other economic enterprises there.

To ascertain the importance of agriculture, we looked at all the supporting economic activity required to move farm production to the consumer. We captured the activity that produces farm inputs (like fertilizer, manufactured feed), farm production, and assembling, processing, and distributing raw farm products for final consumption by domestic and foreign consumers; all these activities make up the food and fiber system. We see several important characteristics that lead to agriculture's being relatively important in a State: a viable farming economy, a concentration of farm sector-supporting industries, and a relative scarcity of alternative economic enterprise.

California illustrates the classification dilemma. It certainly has a viable commercial farming sector and a strong base of farm-supporting industries. The combination of these factors leads to an estimate of nearly 2.2 million workers who owe their jobs to agriculture. This is more than in any other State. But is California an agriculturally dependent State? Not necessarily. The size of its agriculturally related labor force makes it the most important State in the national food and fiber system. Yet compared with California's nearly 11 million total workers, agriculture is less important there (19.7 percent of civilian work force) than it is nationally (21.2 percent of the civilian work force).

In contrast, consider the Dakotas. Their agriculturally related labor force is between 90,000 and 100,000, half of them farmers and farmworkers, and accounts for 31 percent of the jobs in each State. Agriculturally related jobs are very important within those States even though combined the two States account for less than 1 percent of total U.S. employment in the food and fiber system.

What an agriculturally dependent State looks like depends on what you are looking for. We have included estimates of each State's agriculturally related employment (table 1), its relative share of the total State work force (fig. 1), and of the relative importance of selected groups of workers in the region's agriculturally related work force (table 2).

We see from table 1 that in 1981 Alabama had 380,240 workers in the food and fiber system; that is, involved in producing, assembling, and proc-

Table 1—The food and fiber system provides jobs for millions

State	Workers in food & fiber system	State ranking by number of workers	State	Workers in food & fiber system	State ranking by number of workers
	Number			*Number*	
Alabama	380,240	19	Nebraska	199,720	34
Alaska	34,693	51	Nevada	69,454	46
Arizona	218,670	32	New Hampshire	81,354	44
Arkansas	213,860	33	New Jersey	630,700	10
California	2,160,200	1	New Mexico	106,920	39
Colorado	299,630	26	New York	1,472,000	2
Connecticut	251,000	30	North Carolina	789,470	8
Delaware	56,417	48	North Dakota	90,282	42
Dist. of Columbia	68,772	47	Ohio	872,630	6
Florida	858,800	7	Oklahoma	298,750	27
Georgia	623,800	11	Oregon	252,710	29
Hawaii	103,420	40	Pennsylvania	1,068,200	4
Idaho	107,230	38	Rhode Island	76,033	45
Illinois	1,044,200	5	South Carolina	353,340	24
Indiana	465,600	18	South Dakota	98,219	41
Iowa	361,000	23	Tennessee	487,040	16
Kansas	276,740	28	Texas	1,405,900	3
Kentucky	330,440	25	Utah	120,910	36
Louisiana	378,110	20	Vermont	43,657	50
Maine	110,260	37	Virginia	546,890	12
Maryland	368,500	22	Washington	374,120	21
Massachusetts	523,750	13	West Virginia	134,500	35
Michigan	640,240	9	Wisconsin	522,360	14
Minnesota	478,450	17	Wyoming	44,724	49
Mississippi	221,930	31			
Missouri	521,870	15			
Montana	82,418	43	United States	21,320,000	

1981 data.

Gerald Schluter and William Edmondson are economists for the Aggregate Analysis and Macroeconomics Branch, Agriculture and Rural Economics Division, ERS.

essing raw farm products and distributing those products to domestic and foreign consumers. Alabama had a civilian work force of about 1.5 million in 1981, so agriculturally related jobs accounted for 25.5 percent of Alabama's civilian employment. State proportions of total civilian employment accounted for by the food and fiber system are provided in the accompanying map.

While table 1 emphasizes the level of employment, table 2 illustrates how employment in the food and fiber system varies regionally. Farming and food-processing jobs are relatively more important in the Midwest. Textile-manufacturing jobs accounted for 8 percent of food and fiber employment nationally, but outside the South and Northeast this share is less than 2 percent. Food and fiber system manufacturing jobs, other than food-processing workers and textile workers, are relatively more important in the Northeast and North Central regions.

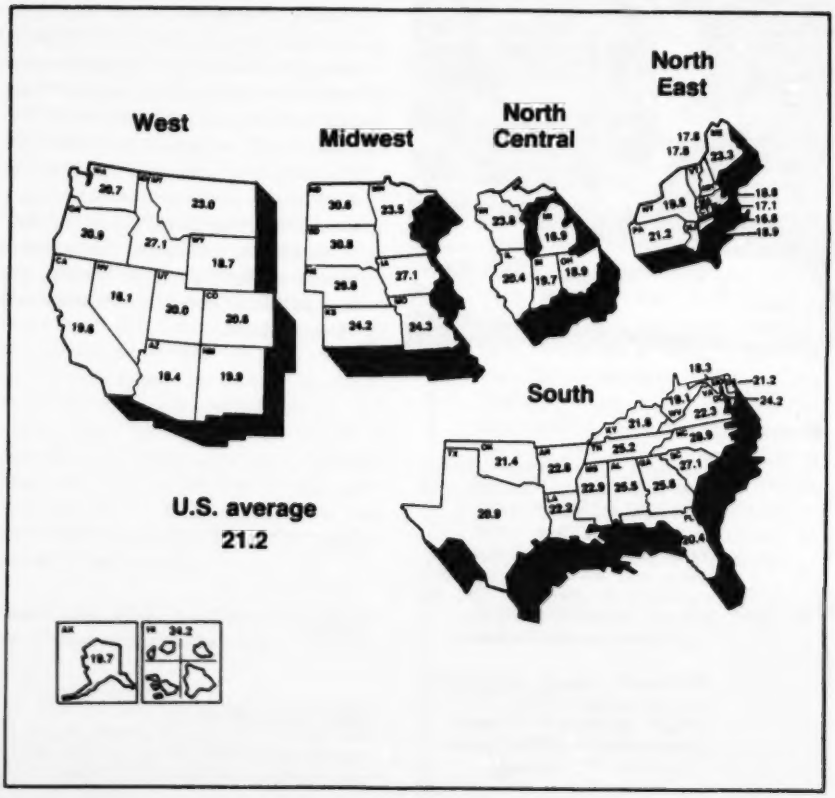
Table 2—Types of agriculturally related jobs vary regionally

Region	Farming	Food processing	Textiles	Other manu-facturing	Trade	Trans-portation	Eating places	Other	Total
	Percent of agriculturally related jobs								
Northeast	6.6	5.5	12.0	9.2	29.6	2.5	15.4	19.2	100
North Central	13.0	8.3	1.8	10.7	28.5	2.4	17.8	17.5	100
South	13.5	6.8	12.6	6.8	25.9	2.6	13.4	18.4	100
Midwest	32.1	9.0	1.9	4.5	23.5	2.0	13.1	13.9	100
West	13.7	6.8	1.7	3.4	27.7	3.2	19.1	24.4	100
National average[1]	12.3	7.2	8.0	7.3	27.7	2.7	15.5	19.3	100

[1]The District of Columbia food and fiber work force is not included in any region but is included in the national average.

What are the agriculturally dependent States? We have chosen four possible criteria and given the top 10 States under those criteria. North Carolina and Iowa each appear on three of the lists: North Carolina on number of food and fiber jobs, number of farm workers, and food and fiber proportion

Figure 1
Nearly one-third of labor force is employed in the food and fiber system in some States



What States are dependent on agriculture?

Depends on your definition

If your criterion is the number of food and fiber system jobs, then the most agriculturally dependent States are:

1. California
2. New York
3. Texas
4. Pennsylvania
5. Illinois
6. Ohio
7. Florida
8. North Carolina
9. Michigan
10. New Jersey

If your criterion is the number of farmworkers, then the most agriculturally dependent States are:

1. California
2. Texas
3. North Carolina
4. Minnesota
5. Michigan
6. Wisconsin
7. Iowa
8. Illinois
9. Missouri
10. Kansas

If your criterion is the proportion of food and fiber system jobs to the State's total jobs, then the most agriculturally dependent States are:

1. South Dakota
2. North Dakota
3. North Carolina
4. Iowa
5. South Carolina
6. Idaho
7. Nebraska
8. Georgia
9. Alabama
10. Tennessee

If your criterion is the proportion of farmworkers to the State's total food and fiber system jobs, then the most agriculturally dependent States are:

1. South Dakota
2. North Dakota
3. Iowa
4. Idaho
5. Montana
6. Kansas
7. Nebraska
8. Minnesota
9. Wisconsin
10. Oklahoma

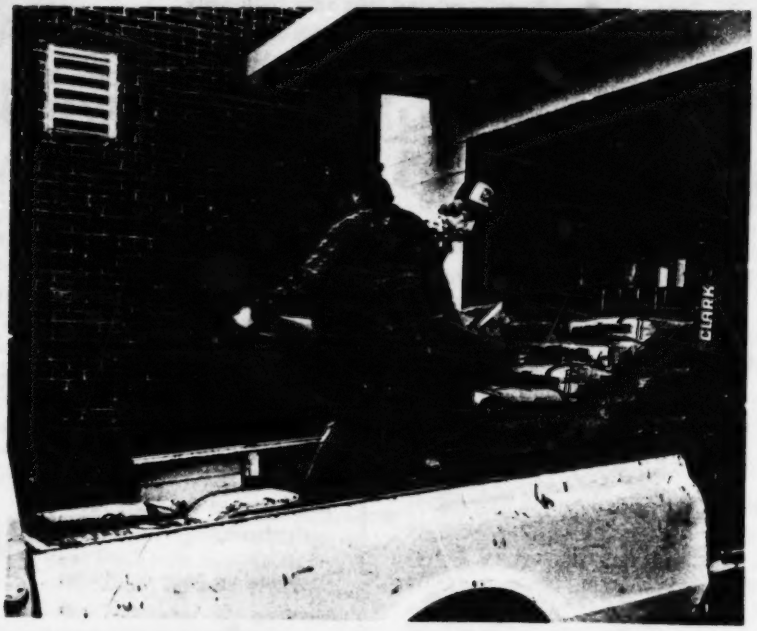


Photo by J. Norman Reid

Workers in the food and fiber system range from employees in a fertilizer warehouse to clerks in a fabric store.

of total; Iowa on number of farmworkers, food and fiber proportion of total, and farmworker share of State food and fiber employment.

Who cares which States are agriculturally dependent? This is of more than academic interest. One has only to look at the list of the 10 States for which food and fiber system employment account for the largest share of total employment and see 4 of the 10 located in the region most affected by the farm debt crisis and 5 of the 10 with significant textile-manufacturing sectors. Thus, the question of the degree of public involvement in addressing the farm debt crisis or textile import competition can significantly affect certain States.

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Herbert Waltzer, Philip A. Russo, Jr., and W. Robert Gump

Professional Networks and Local Officials: A Missing Link in Small Government Management

Local officials who belong to professional associations can serve their constituencies better than officials who belong to no associations. Not only do member officials have access to new ideas and better ways of doing things, they are also more likely to recognize when local problems require outside help and to know where to get that help. Based on a survey of 152 officials in three rural southwestern Ohio counties.

The need for rural and small local governments to strengthen their public management capacities tends to be overlooked because of the highly visible problems of larger cities. Yet, even though we are an increasingly urban country, nearly half of us live in communities with fewer than 50,000 residents, and a third of us live in communities with fewer than 25,000 residents.

Rural and small local governments face increasingly complex problems that tax and often exceed their management and fiscal capacities. They often need help and, according to a 1985 survey we conducted, officials who are more connected to public management networks are more likely to perceive a need for technical assistance in dealing with local problems. Despite that, we also found that a high percentage of local officials were not especially interested in joining professional organizations.

Those who provide assistance to small local governments do need to identify and understand the problems of managing small communities. But our findings reinforce one of the conclusions of a report issued a decade ago by the Office of Management and Budget: "it is really the problem of getting the horse to drink that needs attention, not the problem of finding the water in the first place, or building larger reservoirs."

Local governments in rural and small communities, like all government jurisdictions, rely upon a body of knowledge and technology to perform their tasks and cope with their problems. One important mechanism to obtain this expertise is the organizational link of local officials to the knowledge base and technology of public management. Two types of links seem most important: membership and participation in professional and governmental organizations, and the use of periodicals dealing with local government issues. With the knowledge and understanding offered by these links, and with the continuing professionalization of public management, officials can improve the quality of local government services.

The networks of national, regional, and State professional and government organizations offer local officials information, expertise, and contact with peers, providers of technical assistance, and the changing body of public

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About the Survey

Our data are drawn from a survey of elected and appointed officials in the small cities, villages, and townships in three rural counties in southwest Ohio. We asked officials to report their organizational memberships, public management meetings recently attended, and the periodicals they found useful in performing their jobs. They also indicated the local government functions for which they felt a need for technical assistance and indicated their recent experience with technical assistance services. The survey findings allow us to draw some conclusions about the relationship between the network connections of these officials and their awareness of public management problems and assistance available to help cope with these problems.

Some statistics on the counties and officials surveyed:

Counties—
- Butler 35% rural
- Preble 62% rural
- Warren 82% rural

Local governments—
- 9 cities (over 5,000)
- 26 villages (under 5,000)
- 36 townships

Local officials—
- 10 years in public service (average)
- 7 years in present position (average)
- 36% with some college or a college degree

Respondent categories—
- Municipal executives: chief executive officers, appointed or elected
- Municipal council members: including mayors in jurisdictions with appointed chief executive officer
- Township officials: including trustees and clerks

Response rate—
- 34% overall (152 of 443)
- Municipal executives 38% (31 of 81)
- Council members 28% (61 of 217)
- Township officials 41% (60 of 145)

management knowledge and technology. If officials in small communities are not linked into these basic organizational and communication networks, they will probably not have access to technical assistance and other services and may be less innovative in their management.

To see how well local officials are connected to these networks of public management assistance, we surveyed the officials of the small cities, villages, and townships in three rural counties in southwest Ohio about their memberships in professional organizations, their attendance at meetings, special seminars, and training sessions of professional associations and government agencies, and their use of the periodicals published by professional associations and government agencies.

Organizational Memberships

We asked executives of small cities and villages to report on their memberships in the larger professional community of public management. Since these officials have principal responsibility for initiating, implementing, and supervising the policies and service delivery programs of their municipalities, and for technical assistance initiatives and innovation in policies and practices, it is particularly important to know how much significant contact they have with professional public management associations. Moreover, municipal council members and township trustees, for whom public service is a part-time activity, are less likely to belong to such professional associations. We asked municipal executives to list the professional associations "... of which you currently are a member or of which you have been a member within the past three (3) years."

All the executives of the small cities reported at least one membership, and the average number was 3.7. Two-thirds of these organizational memberships were in national organizations, and most of the remaining one-third included memberships in State professional associations. The most frequently mentioned memberships were in the International City Management Association, Ohio City Managers Association, American Planning Association, Ohio Conference of Community Development, American Public Works Association, National League of Cities, and Municipal Auditors Association of Ohio.

A Guide to the Networks

The 1985 Municipal Yearbook, published by the International City Management Association (ICMA) lists 76 professional and other organizations aimed at local government officials, and it provides information on the specific services each offers (pp. 374-381). James M. Banovetz, editor of the ICMA's very useful *Small Cities and Counties: A Guide To Managing Services*, notes that these organizations.

"... place primary emphasis upon improvements in the delivery of professional services. Thus, local government organizations work continuously to find new and better ways of providing local public services. *The professionals who are employed in local government, and who are active in local government professional organizations, become the critical link through which new ideas are put into practice at the city, county, village, and town level.*

Local government officials are well advised to affiliate with, and become active in, the appropriate professional organizations serving their occupational specialties" (pp. 23-24).

Figure 1
City executives preferred to belong to national organizations ...

Figure 2
While village executives preferred to belong to State and local organizations

Photo by Hamilton Brown

The story was different for village executives. Over half reported no current membership or membership within the past 3 years. The average number of reported memberships for village executives was 1.8, with 78 percent in State and local associations for mayors, managers, auditors, and clerks.

Local Officials Attend Few Professional Meetings

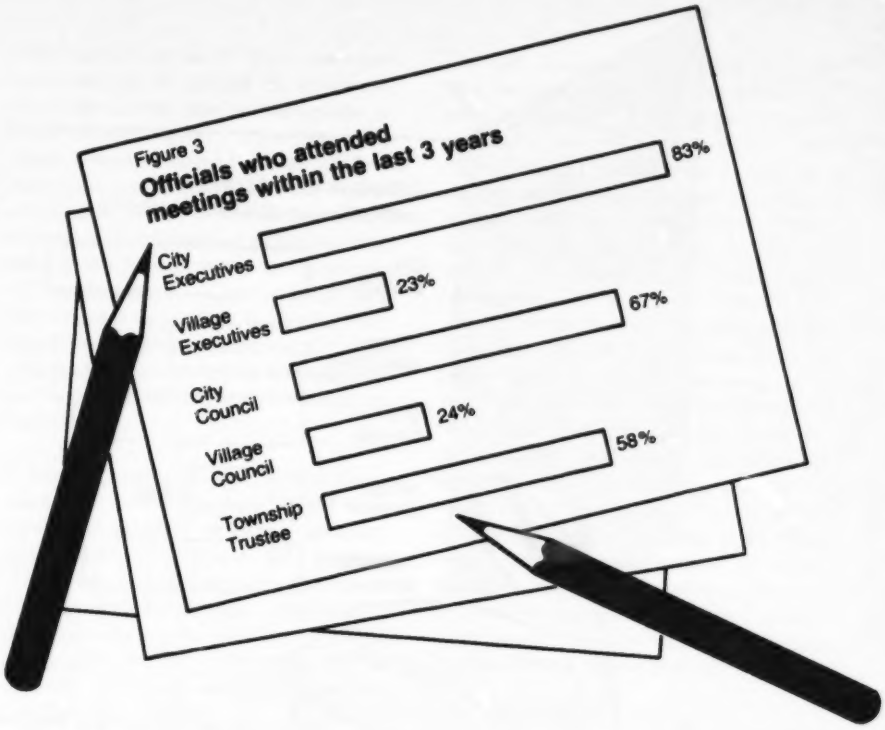
We asked all the small local government officials to list "the professional and governmental meetings, conferences, workshops, seminars and training sessions you have attended or participated in within the past three (3) years."

The officials who responded to our survey were not regular and frequent participants in professional and governmental meetings, conferences, workshops, and training sessions that relate to local government.

City executives as a group do participate in professional and governmental meetings, although their level of attendance is modest, averaging three meetings in the past 3 years. But that is much better than the attendance of the other local officials. For example, 77 percent of village executives had attended no meetings; as a group, they had attended an average of slightly less than one meeting in the past 3 years. Among city council respondents, 33 percent had attended no meetings; the average number of meetings attended by city council members was slightly over one in the past 3 years.

Village council members had the poorest attendance—76 percent had attended no meetings in the past 3 years. One village council member reported that the last meeting he attended was 14 years ago when he was first elected and went to the State capital to participate in a "seminar for newly elected councilmen." By comparison, half of the township officials had attended a public management meeting in the past 3 years.

Of the meetings attended, 79 percent were those of State and local professional associations and government



agencies. Over half of the national meetings were attended by city executives, who also were the only frequent attendees at meetings of professional associations. The meetings most often attended by city executives were those of the International City Management Association, Ohio Municipal League, and the Municipal Finance Officers of Ohio. City council members most frequently attended the meetings of the Ohio Municipal League and the National League of Cities. Village executives and council members attended a broad array of association and government agency meetings, mostly at the State and local levels. Similarly, 90 percent of the meetings attended by township officials were conducted by State and local organizations. Most frequently attended were those of the Ohio Association of Township Trustees and Clerks, and State and local meetings on specific issues, such as road maintenance, block grants, land use, accounting procedures, emergency services, rural annexation, environmental control, investments, and health.

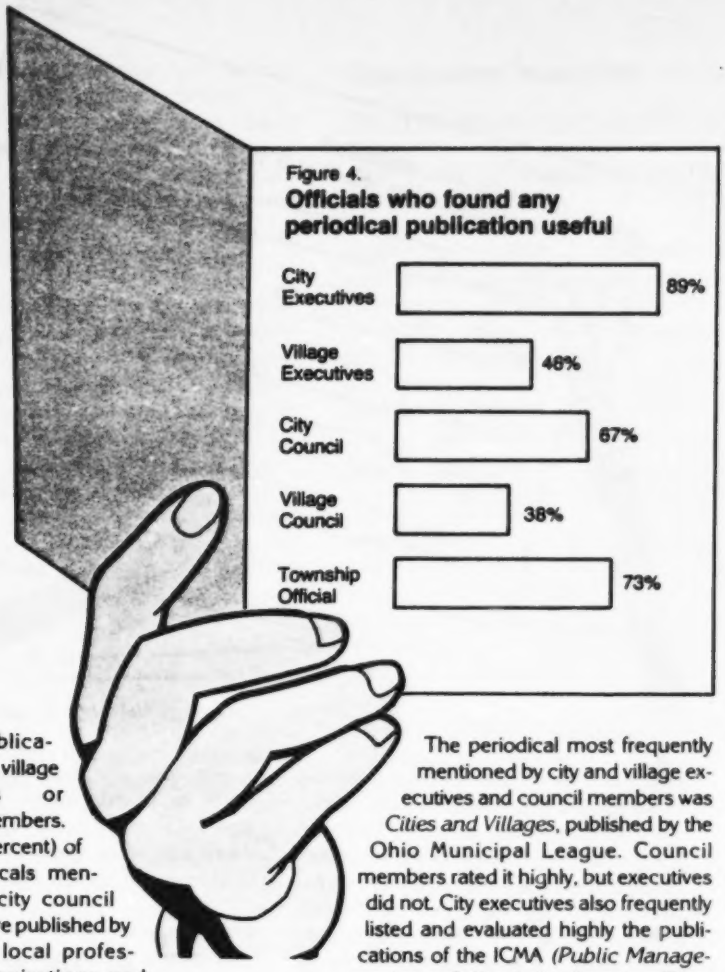
Local Officials Prefer Local Publications

The final item in the survey asked the rural officials to list "any particular magazines, journals, newsletters, bulletins or reports useful in performing your local government responsibilities." They also were asked to evaluate the usefulness of the publications.

City executives listed, on average, 4.3 periodicals. Morever, 83 percent of the periodicals noted by city executives are published by national professional associations and Federal agencies, whereas 71 percent of those listed by other city and village officials are published by State and local associations and State government agencies. Village executives, on average, found 1.9 publications useful, 60 percent of them published by State and local professional associations and government agencies.

Forty-four percent of the small city and village officials indicated no periodicals useful to them in their municipal government responsibilities. Only 11 percent of the city executives indicated no useful publications, while 54 percent of the village executives, 33 percent of the city council members, and 62 percent of the village council members found no publications useful. By contrast, only 27 percent of the township officials responded "no useful publications."

Fewer city council members reported



"zero" publications than village executives or council members. Most (67 percent) of the periodicals mentioned by city council members are published by State and local professional organizations and government agencies. Village council members read 0.8 publication each, most of them (86 percent), again, published by State and local professional organizations and government agencies. Township trustees found an average of 1.4 periodicals useful, 82 percent of them from State and local organizations.

The periodical most frequently mentioned by city and village executives and council members was *Cities and Villages*, published by the Ohio Municipal League. Council members rated it highly, but executives did not. City executives also frequently listed and evaluated highly the publications of the ICMA *(Public Management*, newsletters), the American Planning Association *(Planning)*, and the American Society for Public Administration *Public Administration Review)*. The periodicals listed by the other categories of municipal officers were too limited and scattered to report. Among township officials, the *Ohio Township News*, published by the Ohio Association of Township Trustees and Clerks, accounted for half of the mentions of useful periodicals and was well evaluated by the responding officials. *The State Auditor's Messenger* also was well received by township officials.

Table 1—Many officials belong to no professional organizations, attend no professional meetings, and read no professional periodicals

Type of local official	No organization memberships	No meetings attended	No periodicals read and found useful
		Percent of respondents	
City and village executives	23	42	29
City officials	NA	26	24
Village officials	NA	76	60
Township officials	NA	50	27
All local officials	NA	52	37

NA = data not available.

Local Officials Not Well Connected to Professional Organizations

The typical rural and small-community official is not well connected to the public management networks of national, regional, State, and local professional associations and government agencies that exist to serve them. Small-community officials have only limited contact with peers and providers of technical assistance, and awareness of the changing body of knowledge about public management and technology that these associations and government agencies can offer them. Table 1 summarizes the most striking aspect of the data: the percentages of local officials who reported zero memberships, who attended no meetings, and who read no publications.

Over half of all local officials in our survey had not attended a meeting, conference, workshop, or training session related to local government within the past 3 years, and nearly two-fifths listed not a single magazine, journal, newsletter, bulletin, or report useful to them in performing their local government responsibilities. While about three-fourths of all respondents from the small cities attended meetings and found publications useful, three-fourths of all village officials had attended no meeting recently and three-fifths listed no periodical publication. Half of the township officials reported no meeting recently attended.

Technical Assistance Needs and Public Management Networks

Other surveys and case studies document that officials of small community governments perceived their needs for technical assistance to be greatest in the areas of personnel (both training and methods of recruiting qualified individuals), planning, budgeting and finance, economic development strategies, contracting, grantsmanship, computerized management information sys-

tems, program evaluation, and public and citizen relations. In other words, officials of small communities identify a need for technical assistance across the entire range of public management functions. Federal, State, and university programs have evolved to respond to the technical assistance and other needs of small community governments. Conventional wisdom says that because local governments in rural communities are "small," they lack the trained personnel, financial resources, and requisite organizational and structural arrangements to deal with their increasingly complex public management responsibilities.

However, rural and small communities' need for technical assistance is not simply a function of size. This need is also a function of how closely small community officials are linked to the professional and intergovernmental networks that provide technical information and deliver technical assistance services. The rural community officials in our survey, as has been noted, were asked to identify both the technical assistance needs of their local governments and their individual connections to the public management networks. The respondents' participation in these public management networks varied as did their perceptions of needs for technical assistance. We used these two sets of data to see if officials who are well connected to such networks are more likely to identify more management problems and needs for technical assistance. If that is so, then belonging to such networks may be an important factor in the effective delivery of technical assistance and other services to local governments in small and rural communities.

Our findings indicated a significant relationship between network participation and perceptions of technical assistance needs for all the officials in the study. Respondents who were "high" on network participation were "high" also in their perception that their local governments needed technical assistance (see box).

Moreover, we found no significant differences when we analyzed the possible relationship of technical assistance needs to county, government type, and position of respondent. (We examined those factors to see if there were any relationships to degree of ruralness, local resources, and perspectives of local officials derived from their principal responsibilities.) Local government officials in all three counties, in cities, in villages, in townships, and in elected and appointed positions who were *more* connected to the networks of professional associations and government agencies reported *more* need for technical assistance. Officials who were less connected to these networks perceived less need for technical assistance.

A final item: city and village executives were asked, which factors "might keep you from seeking or using technical assistance. . . ." While 87 percent identified the costs of such services as a constraint, 36 percent noted that a principal constraint was in not being aware of or familiar with the providers of such technical assistance and the services they offered.

Statistical Comparison

Respondents were identified as either "high" or "low" need based upon the median number of government activities for which they indicated a need for "technical assistance." Respondents also were ranked as having "high" or "low" network connections according to the median. We also statistically compared the relationship of high or low need in technical assistance to respondents' county, local government type, and their position in local government to capture factors of ruralness, local resources, and positional perspective. On the basis of chi square, only network connections were significantly related to technical assistance needs.

Perceived need for technical assistance

Network affiliation	High	Low
	Percent	
High	34	19
Low	16	31

Our data suggest that officials of small and rural local governments are linked only marginally to the organizational and communication networks that promote professionalism and the exchange of public management information, services, and resources. These networks are important means of transferring problem-solving and management techniques to public officials, as well as for increasing their understanding of the problem areas in their governmental units and for making them aware of available technical assistance and other services. Furthermore, local government officials who are relatively unconnected to professional networks perceive less need for technical assistance. If that is so, then improving the management of local government will depend not only on what the technical experts have to say but also on whether local officials are within earshot in the first place.

For Additional Reading. . .

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Donald L. Lerman

Substandard Housing

Rural areas have historically had a disproportionately large share of the Nation's substandard housing. That's still true today. Roughly 39 percent of the Nation's substandard housing units were in rural areas in 1980, while only 34 percent of American households lived in rural areas. This amounts to 2 million rural households living in substandard conditions in 1980.

Nevertheless, the Nation's overall housing quality has improved dramatically since 1940, when over 45 percent of the housing units were considered substandard. By 1980, just 6.4 percent of occupied units were substandard. And conditions continue to improve. By 1983, the proportion had fallen to less than 5.2 percent.

Housing analysts define a housing unit as "substandard" if it is crowded (more people than rooms), lacks complete plumbing facilities (hot and cold piped water, a flush toilet, and a bathtub or shower) for the exclusive use of the occupying household, or both. More comprehensive definitions of housing inadequacy are also sometimes used by government agencies (see box—"Other Measures of Inadequate Housing").

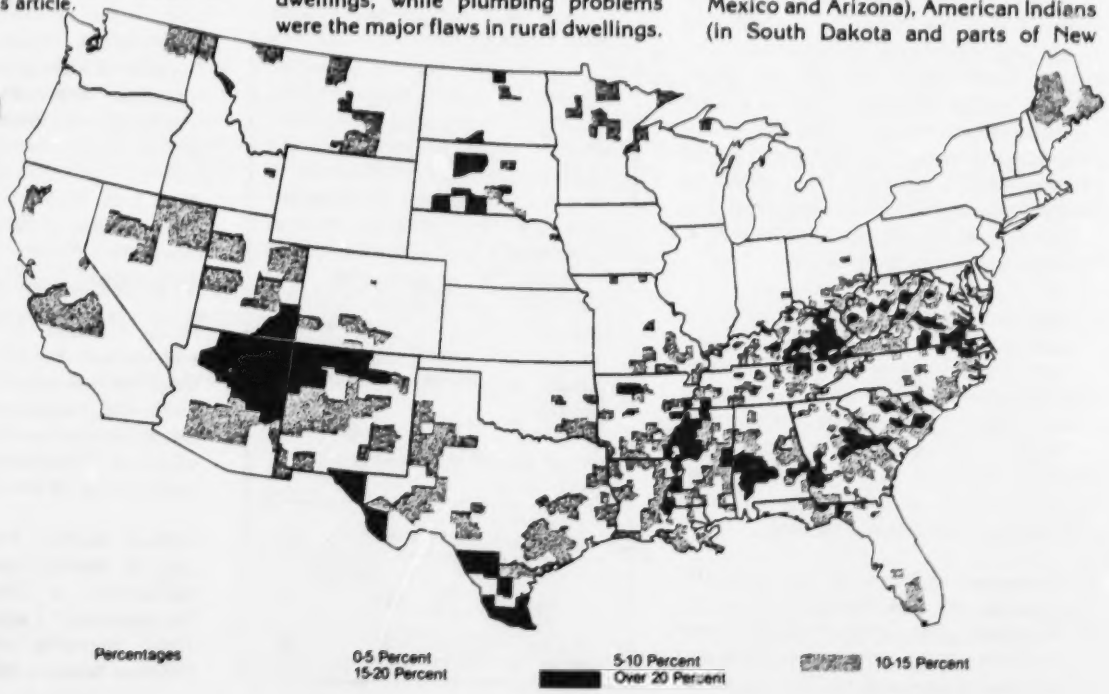
Substandard units in rural areas are likely to have greater and more severe structural defects than those in urban areas. A 1979 study by the U.S. Department of Housing and Urban Development found that maintenance problems were the major flaws in urban dwellings, while plumbing problems were the major flaws in rural dwellings. Further, the percentage of flawed units with more than one problem was substantially greater in rural areas.

Newly derived data from the 1980 Census show that 7.5 percent of all rural occupied housing in the Nation was substandard. The South, with over 10 percent of its rural occupied units rated substandard, led all regions in both total rural substandard units and the proportion of its rural population housed in substandard units. The Northeast contained the smallest proportion of rural substandard units.

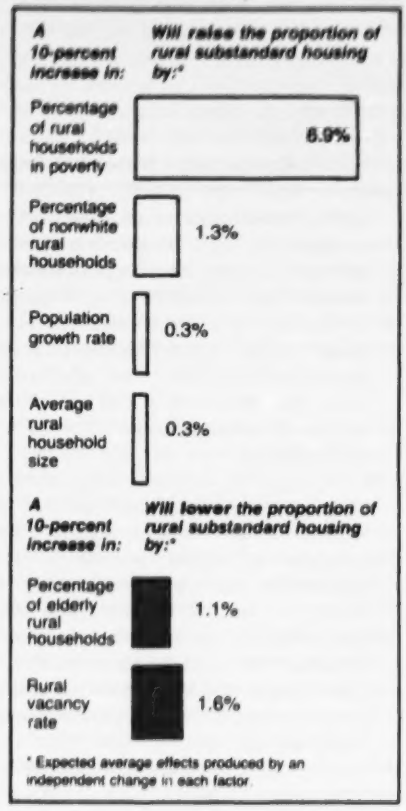
The Southeast coastal region, southern Texas, Kentucky, West Virginia, and parts of New Mexico, Arizona, and South Dakota had heavy concentrations of substandard housing. Large segments of these pockets of substandard housing were occupied by poor blacks (in the Southeast), Hispanics (in southern Texas and parts of New Mexico and Arizona), American Indians (in South Dakota and parts of New

Donald Lerman is an economist with ERS's Agricultural and Rural Economics Division. Calvin Beale, a demographer with ERS, also contributed to this article.

Rural Substandard Housing



Factors that affect substandard housing


A 10-percent increase in:
Will raise the proportion of rural substandard housing by:*
Percentage of rural households in poverty
6.9%
Percentage of nonwhite rural households
1.3%
Population growth rate
0.3%
Average rural household size
0.3%
A 10-percent increase in:
Will lower the proportion of rural substandard housing by:*
Percentage of elderly rural households
1.1%
Rural vacancy rate
1.6%
* Expected average effects produced by an independent change in each factor.

Mexico and Arizona), and poor whites (in the Appalachian regions of Kentucky, West Virginia, and parts of Virginia).

Several factors are significantly related to the proportion of rural substandard housing in a county. For example, the higher the proportion of rural poverty households in a county, the higher the proportion of rural substandard housing the county is likely to have. This relationship is expected since many low-income households can afford only low-quality housing.

Areas with higher proportions of nonwhite rural households also tend to have slightly higher concentrations of rural substandard housing. This may occur because, according to some studies of housing discrimination, nonwhites face higher housing prices and thus may purchase slightly lower quality housing, on average, than do similar white households.

Growth in county population also tends to raise slightly the proportion of rural substandard housing in a county. This may result if housing supply cannot respond quickly enough to greater than average population growth, leading to greater use of a county's stock of lower quality housing.

Rural areas with larger than average households are likely to have a greater proportion of crowded rural units, and therefore a slightly higher rate of rural substandard housing.

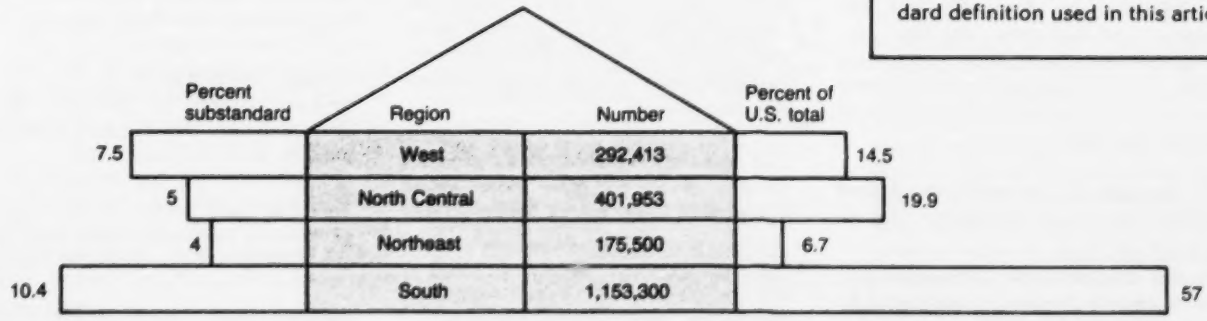
On the other hand, counties with a higher than average proportion of rural elderly housholds have a lower rate of substandard housing, possibly because many of the elderly already own their homes and are thus more likely to live in good quality housing. Likewise, counties with a higher than average rate of vacant or unoccupied rural units as a proportion of available units have a lower rate of substandard housing. With relatively more housing units on the market, residents will have a wider choice of units.

Who's Rural?

The rural population consists of all individuals who live outside urbanized areas and outside places with population of 10,000 or more (20,000 or more in nonmetro counties). Under this definition, 27.5 million households, a third of the Nation's 80.4 million total households, were classified as rural in 1980. In contrast, only a fourth of all households were rural in 1980 by the census definition of rural (open country and places with fewer than 2,500 residents) and by the nonmetro classification.

Other Measures of Inadequate Housing

Alternative definitions of inadequate housing give different pictures of the condition of the Nation's housing stock. By a measure of housing inadequacy used by the U.S. Department of Housing and Urban Development, 6.1 percent of all housing units in 1983 were "seriously inadequate," or possessed a major defect in plumbing, heating, electricity, or maintenance. A stricter inadequacy measure developed by the Congressional Budget Office classified 15.3 percent of all housing units as inadequate in 1983. By this criterion, a unit is inadequate if it contains one or more of seven major housing defects (including plumbing, heating, kitchen, and sewage defects) or two or more of eight maintenance problems (including leaking roof and unconcealed wiring). Both of these definitions classify a higher proportion of the Nation's housing as inadequate than does the substandard definition used in this article.



MANAGING DEVELOPMENT IN SMALL TOWNS

David J. Brower, Candace Caraway, Thomas Pelham, and Charles Propst. Chicago: Planners Press, American Planning Association, 1984. 170 pages, $19.95 (paperback).

Reviewed by Thomas Stucker

Despite its diminutive size, this paperback is a reference book full of practical advice for professionals concerned with managing development of small towns.

It describes the use and applicability of 36 tools to help municipal planners manage growth while avoiding unnecessary costs. It describes tools appropriate for managing development in (or by) smaller communities, and discusses topics from how to select the right tools to how to put together a development management system. The authors make no attempt to prescribe a planning process for rural communities, because the diversity of rural situations and variables would make any single process of limited value.

The authors array the tools for managing development into major groups—land acquisition, public spending, taxation, and development regulation. Each item within these groups is systematically discussed with a definition or description of the method, its authority, viability, previous use and effects, legal issues, and focus. This arrangement provides easy access to and systematic knowledge of the 36 development tools.

For example, in the category of land acquisition, the management tool of "fee simple acquisition" is defined, then its characteristics related to each element are described. That is, something is said about its authority, viability, previous use and effects, legal issues involved, and focus, or result, of its use.

Are any methods for managing growth omitted? Possibly, but none that would be crucial to the management of growth. And a practical ready reference of 36 realistic management tools (many of which were developed for other types of planning situations) that can be adapted and applied to small-town planning is a valuable tool in itself for municipal planners.

Thomas Stucker is an economist with the Economic Research Service, U.S. Department of Agriculture.

RURAL VILLAGES

Don A. Dillman and Daryl J. Hobbs, editors. Boulder, Colo.: Westview Press, 1982. 320 pages, $30.00.

Reviewed by John M. Wardwell

Rural villages in America have undergone a fundamental shift in structure and function. This book documents their change from retail-service center to residential center and, to a lesser extent, to industrial production. In presenting their findings from this first comprehensive study of incorporated rural villages in 50 years, Johansen and Fuguitt provide enough information on methods and data to satisfy the serious student of rural change, while their clearly stated findings and conclusions should appeal to more action-oriented readers.

The research is based on a 5-percent sample of the 11,334 incorporated places with fewer than 2,500 residents and located outside of metropolitan counties in 1960. The authors assembled census data for village population trends from 1950-80 and Dun and Bradstreet data for village economic trends from 1950-70. More recent economic data and other information were obtained from a 1981 telephone survey of mayors from a subsample of 100 villages.

The random sample of places was stratified on four key variables: geographic region, population size, population change, and adjacency to a metro area. The villages were examined to see how those variables affected the social characteristics of the villages, the variety of and change in economic activities, changes in the retail-service sector, and efforts by local groups to promote economic and population growth.

By separating the direct and indirect effects of the four key variables through the use of path analysis and other statistical techniques, the authors were able to show that village promotional efforts were associated with industrial growth, but not with population growth, and changes in community infrastructure have little to do with either. The authors also identify a significant increase in the minimum population sizes necessary to support various kinds of retail and service activities, a sign, they argue, that should lead to an increase in villagers' commuting to larger population centers for both working and shopping.

Villages participated in the 1970's renewed growth of nonmetro areas, and Johansen and Fuguitt show how villages have become much more integrated with the rest of society than they had been earlier in the century, yet without having lost their distinctive character and their residential function.

Johansen and Fuguitt anticipate that

John Wardwell is an associate professor in the Department of Rural Sociology, Washington State University, Pullman.

villages will retain some degree of functional difference and autonomy from other population centers. Yet, they will be increasingly tied to other nearby settlements and their futures will be shaped by the long-term future of rural industrialization, by the effects of the information revolution on settlement patterns, and by the population's mobility. But "regardless of the specific course of (these) various societal changes in the near future, too many factors are in place supporting a generally deconcentrating pattern of population and economic activities" to augur the demise of America's villages (p. 214).

The text concludes with a provocative discussion of the impact of recent rural development policy changes on the continued viability of villages and with a broad-ranging discussion of the future of the village. The authors call for an assessment of recent reductions in government support for facilities and economic development, widely used by the villages in their subsample, and of the shift away from targeted programs toward block grants.

Researchers will appreciate the authors' analysis of village changes within the context of major trends influencing settlement patterns in the United States, and of central place and other settlement system theories. The book also includes two useful appendices, the first providing details of sampling and other methodologies, the other an evaluation of Dun and Bradstreet listings as a source of data. All readers will appreciate the book's thorough list of references and its complete and reliable index.

Since the migration turnaround of the 1970's, researchers and policymakers have emphasized the need for continued monitoring of population and economic trends in rural areas. Johansen and Fuguitt's work, 50 years after the last comprehensive study of the American village, should serve to underscore that need. If we put in place a system of monitoring and interpreting data on changing trends, we will perhaps not have to wait another half century for the next significant addition to our understanding of this component of America's settlement patterns.

Reviewed by Ward F. Porter

Wright, Wyoming, wasn't built in a day. But it didn't take much more than a decade, either. This book tells why and how it was done.

In the coal-rich, High Plains area of Wyoming along the banks of the Powder River, Atlantic Richfield Company, as an adjunct of its mining operations in the area, embarked in the 1970's on an experiment to build, not a "company town," but a "new town."

This book documents in great detail the evolution of that planned rural community from its inception, through the planning and development stages and the eventual establishment of a community of 1,600 as of 1982. The author, a historian at the University of Wyoming, describes the project as a "socioeconomic experiment, testing out new methods of creating a community . . ."

The uniquenes of the project—and the town itself—rests, in part, on the attempt by Atlantic Richfield to apply new-town concepts, like those represented in Reston, VA, and Columbia MD, and the company's efforts to avoid the heavy-handed paternalism often associated with traditional company towns. Other elements of the project's uniqueness derive from the town's rugged and inhospitable environment, and the need to provide housing and services for both transient and permanent residents of a one-industry (coal) town.

The study's methodology combines a historical case study approach with a sociological survey as backup. This reviewer, a sociologist, would have liked some description of the survey methods, including the sample design. The author does refer to a "representative" sample of residents, but it appears rather limited in size and scope.

The book was essentially completed by the summer of 1982, 8 years after the initial purchase of land by the company. During that period, the community grew from a sparsely settled ranching area to a town of some 1,600. Some projections indicate a population of around 4,000 by the year 1990. The town's growth has been slow; but in 1982, the community possessed all essential services to some degree. The initial temporary elementary school had been replaced with a permanent school serving over 200 pupils; a high school was being completed. The town also features a shopping center, a library, and a medical clinic. In summary, the quality of life in Wright is such as to "refute the general notion that energy towns must be sordid, dismal and lawless. It offers, by example, another way to resolve problems often created when rootless persons settle in some of the last remaining blank spaces on the American map" (p. 2).

Much has happened to the town since the completion of the book, the author notes in an epilogue. Under pressure from an economic recession and corporate reorganization, the company's Community Development Group—the project's guiding hand—was dissolved in 1982. The town incorporated in 1984, thereby initiating self-government of the town for the foreseeable future.

The book provides much insight into the social process involved in establishing a new town. This readable and enlightening account emphasizes and documents in considerable detail the role of leadership, both in legitimizing the project and in carrying it out. "New towns such as Wright may one day show no evidence of their origin, but in the initial phases someone must take responsibility" (p. 86). The company's Community Development Group provided such leadership for Wright. To the extent that the company's objective was the eventual withdrawal from complete control of the town and the development of self-government, the experiment appears to have been successful, so far at least. However, as the author points out, only time will tell if the town can continue as a viable entity.

Ward Porter is a retired rural sociologist with a background in university research and teaching who has had responsibility for research programs in the USDA Extension Service and the U.S. Department of Health, Education, and Welfare.

Compiled by Thomas McDonald

First the bads news. Rail line companies abandoned 5,400 miles of track in 1984 and 3,300 miles in 1985, according to ERS economist T. Q. Hutchinson. Between 1974 and 1985, rail companies abandoned about 4,000 miles per year.

While strengthening the financial situation of rail companies, the abandonments tend to reduce service options to rural areas and farm communities. In most cases, loss of rail service forces merchants and farmers to use trucks to move their goods, which generally costs more. Grain elevators, processors of fruits and vegetables, and suppliers of farm machinery are all affected. Rail line abandonments also impose additional strains on rural roads and bridges.

Now the good news. Not all that track is really being abandoned for good. Though the large companies are abandoning it, much of it reopens for business almost immediately, under the operation of short line railroads, most of which operate as feeder lines for the big roads.

Only problem is, nobody keeps track of how many miles of rail are run by these small, mostly local companies. They're not regulated by the Interstate Commerce Commission (like the big railroads), and they don't have to file any forms with the Government.

What we do know is that membership in the American Short Line Railroad Association has jumped by nearly 100 companies since the early 1970's, and now stands at about 292, according to Thomas Dorsey, vice president of the association.

The short lines have grown, prospered, and profited because they've been able to negotiate favorable labor agreements. That usually translates into a more flexible work force than on the big roads.

In addition, the short lines are more of a local presence in the area and are able to drum up business that the big companies overlooked.

And some of the short lines companies are not really so short. The Chicago Central and Pacific Railroad, for example, runs a 700-mile line between Chicago and Omaha.

Our February 1986 issue told how Boone County, MO, is going about its bridge and road repairs (p. 40). Here's a look at some other States.

About 20 percent of the rural roads in Illinois, Minnesota, Ohio, and Wisconsin need major repair, according to a survey by USDA's Office of Transportation and Agricultural Marketing Service. USDA surveyed township officials, farmers, and agribusiness firms in the four States and concluded that about 21 percent of the rural bridges need complete replacement, and another 10 percent need major renovation.

Financing Rural Roads and Bridges in the Midwest, a book prepared by USDA, based on the survey, makes some suggestions about how to finance the needed repairs.

Rural roads and bridges are used not only for day-to-day travel but also to move farm products and farm supplies. The amount of money involved is staggering. The survey estimates repair costs for the rural roads and bridges in just those four States at $2.5 billion.

What to do? No easy solution, but the authors make some suggestions: tap new revenue sources (most now rely on property taxes), abandon maintenance of some roads (Iowa, for example, has a system of "primitive roads"), close some bridges, and improve management practices.

Financing Rural Roads and Bridges in the Midwest (by David L. Chicoine and Norman Waltzer, 250 pages, Oct. 1984) is free from Ruth McWilliams, Office of Transportation, U.S. Department of Agriculture, 1405 Auditor's Building, Washington, D.C. 20250; telephone (202) 447-8891.

USDA's Office of Transportation also helped prepare a study on Pennsylvania's network of rural roads. The study has since become a blueprint for other States to identify their rural roadway priorities and to set up their own program of maintaining and repairing rural roads.

Pennsylvania Agri-Access Network Statewide Report (also free from the above address) charted Pennsylvania's 1,821 miles of rural roads and identified nearly 600 obstructions on those roads to moving heavy agricultural and lumber loads. Most of the obstructions involved bridges, 312 of which carried weight restrictions.

The study helps target scarce highway funds to maintaining a viable network of rural roads for the efficient transportation of farm and forestry products.

By combining some services and purchases with other schools, rural schools might be able to save some money. Here are a few examples.

With a cooperative purchasing arrangement, 14 schools in Sheldon, IL, realize substantial savings by bulk ordering items like paper products, athletic goods, and food services.

Schools in Warsaw, NY, are able to offer their students specialized classes in advanced math, foreign languages, and other subjects through an "electronic blackboard." A professor at a nearby college teaches the courses and transmits them to the Warsaw district and three other districts in the area.

Schools elsewhere share legal services, data processing, transportation, health insurance, workers' compensation, property and casualty insurance, athletic and health supplies, library, audiovisual, and bookkeeping services.

School administrators can probably figure out other ways to share the costs of, for example, a business manager, inservice training, video programs, mobile computer classrooms, custodial supplies, curriculum guides, and training for administrators.

(Thanks to Southern Rural Development Center Capsules, Nov. 1985)

Rural communities may have trouble selling municipal bonds needed to finance schools and government projects because declining farmland values and commodity prices are eroding the tax base in many Midwestern States.

So says Richard Ciccarone, vice president of American Portfolio Advisory Services in Lisle, IL (312-983-2132). Ciccarone recently studied the tax situation in 12 Midwestern States and what it might mean for rural municipal bonds. These bonds have traditionally been considered solid investments because of the conservative policies of the communities issuing them.

Ciccarone's study focused primarily on general obligation bonds backed by the government that issued them. But problems may also extend to revenue bonds, which are repaid with the proceeds of the project they were issued to finance, said Ciccarone. Other warning signs of rural "fiscal stress," said Ciccarone, were slower tax collections and increases in tax delinquencies.

All these factors make rural bonds less attractive to investors. They lower "the comfort levels, the protection levels, for a general obligations investor."

Because of these problems, the bonds may come to market without a rating (an independent appraisal of the issuer's ability to repay the principal and interest), making them harder to sell and increasing the financing costs for local governments.

One way States might want to deal with the problem is by creating bond banks, in which a number of small issuers package their bonds, share the cost of issuance, do their own screening, and share the bond rating.

You and the editoral staff may enjoy learning that in each issue I generally find several articles of use to me.

Andrew D. Reid, Director
The Pike County Outreach Council

I would like to take this opportunity to commend you on the excellent information which your staff presents in each issue of RDP.

RDP articles provide intelligent discussion of varied aspects of rural life, thus contributing to an improved understanding of interrelationships within rural areas and between rural and metro areas. This broad based perspective is essential if we are to meet rural needs for transportation or any services necessary for future social and economic well-being of rural residents.

I appreciate your documentation of your data sources and your use of "experts" in the topic area being discussed. References "For Additional Reading . . ." at the conclusion of RDP articles are also much appreciated. Thank you for your contribution to an improved quality of life in rural America.

Wayne R. Goeken
Transportation Planner
Northwest Regional Development Commission

Your publication is just excellent. I think that it is critically important to focus on rural development and not on agriculture for your policy concerns.

Richard Dethmers, Director
Special Projects
Minnesota Telecommunications Council

Just a note to compliment you and your staff on the interesting contents of the February issue of *Rural Development Perspectives*. This issue was my first introduction to this periodical and I am enclosing a subscription form.

As a faculty member at TTUHSC, a medical school located in West Texas, [I find that] your subject contents are most valuable to our efforts in developing our Texas Rural Health Association. . . . I will anticipate receiving your next issue.

Sheryl H. Boyd, Ed.D
Assistant Chairman
Texas Tech University Health Sciences Center

We will print as many letters from readers as space allows. We encourage you to use this column to comment not only on articles that have appeared in our magazine, but on other rural issues as well. Ed.

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